The Morningstar ESG Commitment Level
Our assessment of 94 asset managers.

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Executive Summary

In 2022, sustainable investing was put to the test. Russia's attack on Ukraine ignited an energy crisis that reminded investors how dependent the world is on fossil fuels and how bumpy the road to net zero will be. Elevated oil prices meant sustainable funds with minimal energy exposure underperformed compared with traditional funds, although overall flows into sustainable funds held up better.[1] Meanwhile, greenwashing concerns rose, prompting regulators to clamp down on misleading ESG claims and impose fines on asset managers. These events exacerbated growing criticism of sustainable investing, especially among politicians in the United States.

Against this complex backdrop, asset managers have started reviewing their ESG ambitions, with some appearing to backtrack from previous commitments. In this context, sustainability-focused investors should be more discerning when selecting managers.

The Morningstar ESG Commitment Level aims to provide insights to simplify this process for investors. The ESG Commitment Level is a qualitative measure that aims to help investors better understand which asset managers are committed to delivering the sustainability outcomes that best meet investors' preferences. In this report, we share the results of our Morningstar ESG Commitment Level assessments of 94 asset managers across the world.

Key Takeaways

- Out of the 94 asset managers evaluated, eight earn a Morningstar ESG Commitment Level of Leader, while 17 score Advanced. The largest group of firms—43—receive an ESG Commitment Level of Basic, and 26 earn Low. This distribution reflects the variety of the marketplace, which includes large, diversified asset managers as well as sustainability-focused firms.

- Ratings changes have been few and far between over the past two years. Three firms (UBS Asset Management, Royal London, and Alphinity) were upgraded to Advanced from Basic, and one firm (Comgest) was downgraded to Basic from Advanced.

- European asset managers tend to be further along than their peers. More than half of European firms under coverage earn ESG Commitment Levels of Leader or Advanced.

[1] Global Sustainable Fund Flows: Q3 2022 in Review, Morningstar Research, Oct. 27, 2022.
https://assets.contentstack.io/v3/assets/blt4eb669caa7dc65b2/blt77ddb1651bd21f15/Global_ESG_Q3_2022_Flow_Report_FINAL.pdf

- The most highly rated asset managers tend to be small, dedicated shops with a high percentage of assets in ESG-focused funds, but exceptions exist. Out of the eight Leader firms, just one (Robeco) offers non-ESG-focused funds. By contrast, a handful of small, ESG-focused firms (Veritas Asset Management, Eventide, Nanuk Asset Management, and Bell Asset) land at Basic.

- The Big Three, namely BlackRock, Vanguard, and State Street, are constrained in their ability to lead on ESG matters in part because most of their assets track non-ESG indexes. BlackRock and State Street earn Basic, while Vanguard earns Low.

- Funds offered by Leader firms tend to exhibit lower levels of ESG risk relative to peers, as reflected in higher Morningstar Sustainability Ratings.

What Is the Morningstar ESG Commitment Level?

In this section, we provide an overview of the Morningstar ESG Commitment Level and what it aims to do for investors. We illustrate how to use the ESG Commitment Level alongside Morningstar's portfolio-level data, and we summarize the findings of our first two years of ESG Commitment Level evaluations.

Introduction to the ESG Commitment Level

In 2020, Morningstar introduced the ESG Commitment Level for Asset Managers, a qualitative rating that expresses our analysts' assessments of asset managers' determination to incorporate ESG factors into their investment processes and strategies relative to peers. The Morningstar ESG Commitment Level aims to help investors with their fund and asset manager's due diligence process. The scale runs from best to worst as follows: Leader, Advanced, Basic, and Low.

To arrive at the Morningstar ESG Commitment Level for a given asset manager, our analysts evaluate three key pillars:

- Philosophy and Process
- Resources
- Active Ownership

Although not an exhaustive list, *philosophy and process* includes factors such as a firm's history of ESG investing, the alignment of a firm's investment philosophy and ESG principles, and the level and consistency of ESG integration across the investment lineup. Sustainable investing requires adequate *resources* including specialized ESG expertise and reliable and useful ESG data. To evaluate a firm's *active ownership* practices, analysts consider the firm's engagement and proxy-voting policies, its record of support for ESG shareholder resolutions, and its level of disclosure around these activities, among other factors.

The ESG Commitment Level is distinct from the Morningstar Analyst Rating,[2] which expresses our analysts' expectations that a fund will be able to outperform its category benchmark index over time. The ESG Commitment Level is not evaluating expected performance. Rather, it is focused on the extent to which asset managers and funds incorporate ESG considerations into their investment processes, and it highlights the funds and asset managers that are leading the way when it comes to ESG investing.

[2] Morningstar Analyst Rating for Funds Methodology, Morningstar Research, June 28, 2021. https://direct.morningstar.com/research/doc/949649/Morningstar-Analyst-Rating-for-Funds-Methodology

The ESG Commitment Level is also complementary to existing portfolio-level sustainability metrics such as the Morningstar Sustainability Rating,[3] Sustainable Attributes,[4] and product involvement.[5] The Morningstar Sustainability Rating is a quantitative, holdings-based measure of a fund's ESG risks relative to category peers. Investors may find it helpful to use the two measures in tandem, but they are merely complementary—one qualitative and based on an overall assessment of a strategy, the other quantitative and based on the ESG risks of a strategy's portfolio holdings.

Asset managers that earn top marks under the ESG Commitment Level are those that our analysts expect to continue leading the charge on ESG and sustainability issues. Because such a large portion of a fund's sustainability characteristics is driven by centralized resources and active ownership strategies, it is crucial to assess the firm itself, not just individual funds.

In this report, we share the results of our Morningstar ESG Commitment Level assessments of 94 asset managers. These managers were selected for coverage based on a combination of factors. We seek to cover the largest asset managers, the leading asset managers from an ESG perspective, highest-rated parents under our Morningstar Analyst Rating, and a diverse sample based on geography and asset class. These asset managers are mostly headquartered in the U.S. (39) and the United Kingdom (22). The rest are headquartered in Australia (20), Continental Europe (12), and Singapore (1).

3 The Morningstar Sustainability Rating is an asset-weighted rollup of Sustainalytics' company and sovereign ESG Risk Ratings based on the trailing 12 months of a fund's portfolios. Fund sustainability scores are ranked, and 1 to 5 globes are assigned. Funds with the best 10% of scores within their peer group receive 5 globes, and those ranking in the next 22.5% receive 4 globes. In other words, funds ranking in the top third of their peer group receive 4 or 5 globes. Morningstar Sustainability Rating Methodology, Morningstar Research, Oct. 13, 2021. https://www.morningstar.com/api-corporate/midway/v1/research/download/1061767?timestamp=16364929800000600&token=eyJhbGciOiJIUzI1NiIsInR5cCI6IkpXVCJ9.eyJkYXRhIjp7ImRvY3VtZW50SWQiOjEwNjE3Njd9LCJpYXQiOjE2NzA1MzY3MDd9.Lkb0DePsYFDs6FMx1mHBDBel7jTsL5xLOTB1BnQohy4

4 Morningstar Sustainable Attributes: Framework and Definitions for Sustainable Investment and Employs Exclusions Attributes, Morningstar Research, June 6, 2022. https://www.morningstar.com/api-corporate/midway/v1/research/download/1097349?timestamp=16603269000000500&token=eyJhbGciOiJIUzI1NiIsInR5cCI6IkpXVCJ9.eyJkYXRhIjp7ImRvY3VtZW50SWQiOjEwOTczNDl9LCJpYXQiOjE2NzA1MzY3MDd9.gSZ5BQsnOzMmVx6EBDARxtx_hKGBTwnNX37KCSa_uJE

5 Morningstar Low Carbon Designation, Morningstar Research, May 21, 2018. https://www.morningstar.com/api-corporate/midway/v1/research/download/859224?timestamp=15240565800000500&token=eyJhbGciOiJIUzI1NiIsInR5cCI6IkpXVCJ9.eyJkYXRhIjp7ImRvY3VtZW50SWQiOjg1OTIyNH0sImlhdCI6MTY3MDUzNjkxOH0.0Y3NTkuLsEOMf-oH4fFUY-qOmg8AdTQKIXBOCqi7FBE

Summary of Morningstar ESG Commitment Levels

Exhibit 1 Overview of the Morningstar ESG Commitment Level

Low	Basic		Advanced	Leader
Allan Gray Australia (AU)	Abrdn (UK)	JPMorgan Asset Mgmt (US)	AllianceBernstein (US)	Affirmative Invt Mgmt (UK)
American Century (US)	Acadian (US)	Liontrust (UK)	Alphinity Invt Mgmt (AU)	Australian Ethical (AU)
Antipodes Partners (AU)	Aegon Asset Mgmt (NL)	M&G (UK)	Altius (AU)	Boston Trust Walden (US)
Ariel Invts (US)	Allianz Global Investors (DE)	Macquarie (AU)	Amana (US)	Calvert Research and Mgmt (US)
Artemis (UK)	Allspring (US)	MFS (US)	Amundi (FR)	Impax (UK)
Baird Asset Mgmt (US)	AMP Capital (AU)	Morgan Stanley Invt Mgmt (US)	AXA Invt Managers (FR)	Parnassus (US)
BetaShares (AU)	Ausbil Invt Mgmt (AU)	Nanuk Asset Mgmt (AU)	BNP Paribas Asset Mgmt (FR)	Robeco (NL)
Colonial First State (AU)	Baillie Gifford (UK)	Natixis Solutions (US)	Candriam (LUX)	Stewart Investors (UK)
Dimensional (US)	Barings (US)	Neuberger Berman (US)	Generation Invt Mgmt (UK)	
Dodge & Cox (US)	Bell Asset Mgmt (AU)	Ninety One (UK)	HSBC Global Asset Mgmt (UK)	
Eastspring Invts (SG)	BlackRock (US)	Payden & Rygel (US)	Jupiter (UK)	
Fidelity Invts (US)	Brown Advisory (US)	Pendal (AU)	LGIM (UK)	
Franklin Templeton (US)	Capital Group (US)	Perpetual (AU)	Nuveen (US)	
Fundsmith (UK)	Colchester Global Investors (UK)	Pictet Asset Mgmt (CH)	Royal London Asset Mgmt (UK)	
Greencape Capital (AU)	Columbia Threadneedle (US)	Pimco (US)	Schroders (UK)	
Investors Mutual Limited (AU)	Comgest (FR)	Putnam (US)	UBS Asset Mgmt (CH)	
Jamieson Coote Bonds (AU)	DWS (DE)	State Street Global Advisors (US)	Unigestion (CH)	
Janus Henderson (UK)	Eventide (US)	T. Rowe Price (US)		
Magellan Group (AU)	Fidelity International (UK)	Troy Asset Mgmt (UK)		
Man Group (UK)	First Sentier Investors (AU)	Veritas Asset Mgmt (UK)		
Mellon (US)	Goldman Sachs Asset Mgmt (US)	Wellington Mgmt (US)		
Platinum (AU)	Invesco (US)			
Schwab Asset Mgmt (US)				
VanEck (US)				
Vanguard (US)				
Voya (US)				

Source: Morningstar Manager Research. Data as of Nov. 30, 2022. BlackRock includes iShares-branded funds, Capital Group includes American Funds, DWS includes Xtrackers, and Nuveen includes TIAA.

Leading the Way

Out of the 94 asset managers covered under the Morningstar ESG Commitment Level, we have awarded the highest honors to just eight. Robeco, Parnassus, Calvert, Impax, Australian Ethical, Boston Trust Walden, Affirmative Investment Management, and Stewart Investors all earn Morningstar ESG Commitment Levels of Leader.

In most cases, these firms have focused on sustainable investing (formerly known as *responsible investing*) since day one, and this philosophy remains core to their identities today. These firms operate from a shared belief that sustainability goals go hand-in-hand with long-term financial return, and this is reflected at all levels of the organization.

Over the years, these firms have not rested on their laurels. Rather, they have been at the cutting edge of developing innovative frameworks to assess ESG risks as well as the impacts, both positive and negative, that companies and investments have on the environment and society at large. Strong internal cultures of sustainability drive continued innovation in the space, and these firms stay ahead of the curve by promoting improved disclosures and practices in portfolio companies as well as collaborating with regulators and peers to raise sustainability standards.

Leading sustainable-investing programs require topnotch talent. Many of these firms combine strong, widespread knowledge of sustainability topics as well as dedicated specialist resources to stay at the forefront of best practices in the space. Compensation programs clearly incentivize sustainability initiatives, and checks and balances exist to ensure accountability to these goals. Firms that earn top marks empower their investment talent with robust ESG data and tools.

Active ownership practices, including engagement and proxy-voting strategies, clearly reflect the firm's sustainable-investing philosophy. For asset managers that earn ESG Commitment Levels of Leader, these activities are outcomes-oriented, meaning that firms set expectations of investee companies on major ESG issues and persist through escalation to drive progress toward these goals. For example, leading firms may engage with companies to improve climate-related reporting, net-zero transition plans, and firmwide diversity initiatives. If progress is slow, firms may escalate by voting against board directors, filing or co-filing shareholder proposals, or divesting or refusing to purchase new securities.

Moreover, escalation programs and proxy-voting strategies shouldn't come as a surprise. Pre-eminent firms predisclose their priorities for investee companies, promptly publish rationales for proxy-voting decisions, and provide case studies so that investors can understand the firm's approach.

Advancing the Field

The cohort of 17 asset managers who earn Advanced ESG Commitment Levels reflects a more varied group of investment firms, including large firms such as Amundi and UBS, but also small and midsize shops like Schroders, Nuveen, and Generation Investment Management. In some cases, these firms have long track records of sustainable investing but fall behind the front-runners because of factors such as an inconsistent approach to ESG integration across the fund lineup or an engagement program that mostly centers around one-time interactions. In other cases, Advanced firms have only kicked off their ESG journeys in the past five or 10 years and have yet to solidify those efforts.

Just the Basics

The largest and most diverse grouping of asset managers—43 firms—receive ESG Commitment Levels of Basic. These range from industry behemoths such as BlackRock and State Street to boutiques including Colchester Global Investors and Acadian Asset Management. In general, these firms are progressing in their sustainability efforts but still blend in with the crowd. Some are still in the early stages, having kicked off ESG integration programs within the past five years, while others are much further along—close to, but not quite reaching, Advanced.

Exhibit 2 Asset Managers by ESG Commitment Level

ESG Commitment Level	Count of Asset Managers
Leader	8
Advanced	17
Basic	43
Low	26

Source: Manager Research and Morningstar Direct. Data as of Nov. 30, 2022.

Below Expectations

Finally, 26 asset managers in our sample, including Vanguard, Fidelity Investments, and Dimensional, received Low ESG Commitment Levels. Firms at this level tend to be slower to adopt ESG policies and processes, doing so only once these have become common practice or regulatory requirements. They also typically have a small percentage of assets in ESG-focused funds, so incorporating ESG criteria and pushing the needle through active ownership tend to be lower priorities. In other cases, these asset managers may be just getting started on incorporating ESG considerations into their investment processes, but a late start means their efforts lag peers. All in all, firms with Low ESG Commitment Levels are ESG laggards and are not expected to drive the sustainability agenda for investors.

Upgrades and Downgrades

Financial markets are always dynamic, but the pace of change and evolution in ESG investing over the past three years is quite something to behold. Increasing investor interest, regulatory developments, and improvements in data and technology all require asset managers to move quickly but thoughtfully.

Most asset managers have indeed responded, some with significant investment in people, data, research, and training, resulting in enhanced ESG integration, more corporate engagement, and more-transparent proxy-voting decisions, among other efforts. The vast majority of firms have improved their practices, which raises the bar for the industry overall as well as for our ESG Commitment Level consideration. These developments mean that the ESG-investing landscape can be fluid in terms of which firms stand out from the pack as it becomes clearer which firms are accelerating and supporting their efforts in a way that signals a higher commitment level. Morningstar revisits a firm's commitment to ESG investing on a regular basis, taking a fresh look at a firm's programs and results in the context of the current global environment.

Morningstar's analysts have evaluated close to 100 firms. Among those that have been considered a second time, most retained their ESG Commitment Levels through these evaluations. However, four firms saw their ratings change. Three, including UBS AM, Royal London, and Alphinity IM, earned upgrades to Advanced from Basic, while Comgest received a downgrade to Basic from Advanced.

When Morningstar first evaluated Comgest from an ESG-investing standpoint in November 2020, the firm received an ESG Commitment Level of Advanced. At the time, we noted that, while Comgest's investment focus on quality-growth companies meant it often invested more naturally in companies with better ESG attributes, that outcome was also due to the investment team's deliberate integration of ESG considerations.

However, while the firm has long employed ESG specialists, when we reconsidered the firm in January 2022, its team of five (up from three in 2019) seemed small compared with a growing list of responsibilities; hence, we determined its ESG Commitment Level to be Basic. Further, Comgest hasn't made the same kinds of advances on engagement and proxy voting that others have, especially in terms of environmental and social issues. This doesn't mean that Comgest isn't making progress in these areas, just that it has slipped relative to other firms with Advanced ESG Commitment Levels.

UBS AM was upgraded to Advanced in December 2021 from Basic in November 2020, as the firm has increased its level of ESG integration on its traditional offerings and has also launched ESG-focused funds and exchange-traded funds or converted some existing funds to pursue ESG strategies. UBS has also added people to ESG- and stewardship-focused teams, as well as improved transparency around proxy voting and expanded its climate-related engagement efforts. Royal London similarly added to its ESG-dedicated personnel, which also grew as a percentage of its overall workforce, and improved transparency on its engagement processes, specifically, its escalation strategy. As a result, it was upgraded to Advanced in May 2022 from Basic in November 2020. Finally, Australia-based Alphinity IM moved to Advanced in October 2021 from Basic in November 2020. While that firm has included ESG principles in its investment philosophy since its 2010 founding, it has more recently invested in ESG IT infrastructure as well as people resources. Its Sustainable Committee has also increased its oversight of portfolios to ensure compliance with its Ethical Charter.

Morningstar will continue to assess progress among firms, looking for material improvement and deterioration, and will apply those insights to asset managers' ESG Commitment Level.

Trends in the ESG Commitment Level Landscape

In this section, we share some observations about the landscape of ESG Commitment Levels, starting with the relationship between managers' size and nationality and their ESG Commitment Levels. We also elaborate on the growing importance of collaborative engagement initiatives such as the Net Zero Asset Managers Initiative and Climate Action 100+.

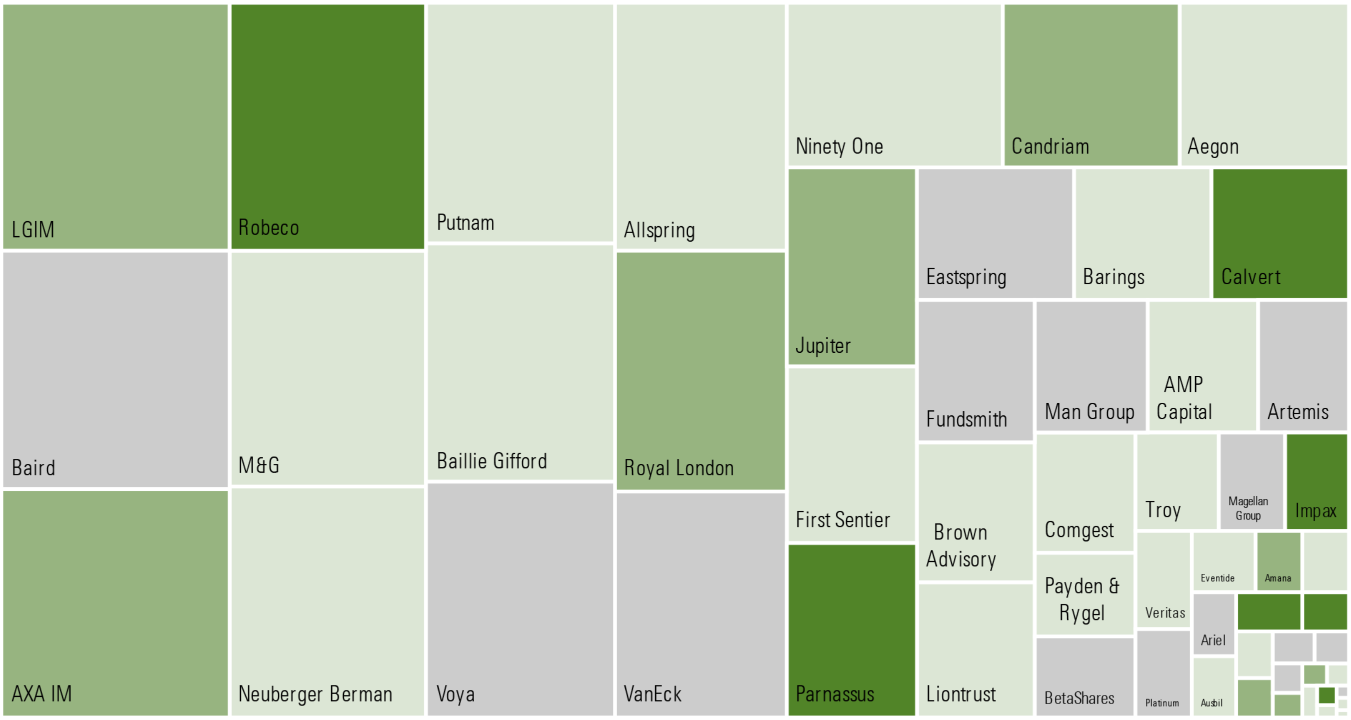
Size Matters: Where Smaller Firms Have an Edge

Exhibits 3 and 4 show somewhat of a link between manager size and ESG Commitment Level. The most highly rated asset managers tend to be small, dedicated shops. For instance, Leader-rated Impax and Parnassus have fund assets of USD 10.5 billion and USD 38 billion, respectively, 100% of which is held in ESG-focused strategies. Small firms tend to have an advantage when it comes to building a strong culture of sustainability, nimbly adapting to an evolving sustainability landscape, and advocating for progress on sustainability issues at investee companies through activities like filing and co-filing shareholder resolutions.

The largest shop to earn top marks is Robeco, with nearly USD 82 billion in fund assets as of August 2022. Robeco has been a trailblazer in sustainable investing for decades through RobecoSAM, which was founded in 1995 as Sustainable Asset Management. RobecoSAM became an affiliate of Robeco in 2007 and was fully integrated into Robeco in 2021.

Exhibit 4 below includes the roughly 60 firms under coverage that oversee less than USD 100 billion in open-end fund and exchange-traded fund assets globally.

Exhibit 3 Small and Medium-Size Asset Managers by ESG Commitment Level



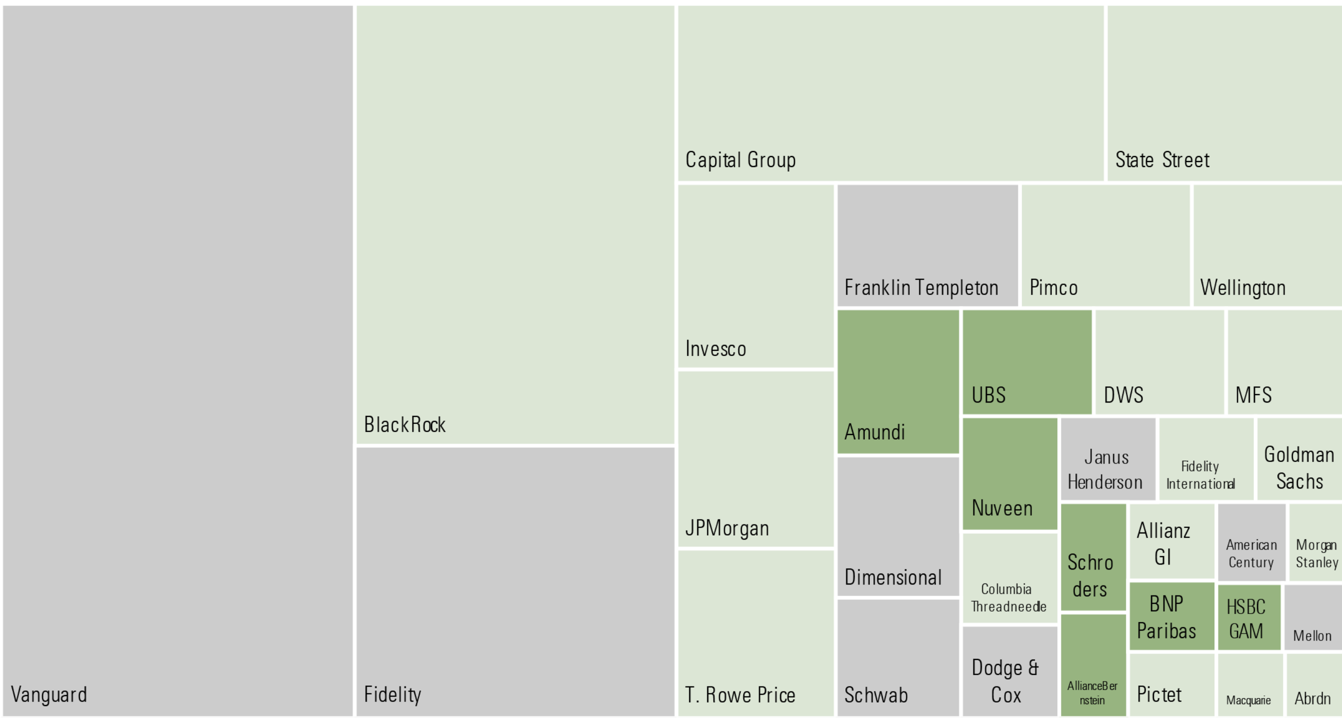
Source: Manager Research and Morningstar Direct. Unlabeled boxes reflect the following firms: Colchester Global Investors, Australian Ethical, Boston Trust Walden, Investors Mutual Limited, Generation Investment Management, Antipodes Partners, Allan Gray Australia, Greencape Capital, Alphinity Investment Management, Unigestion, Nanuk, Acadian, Affirmative Investment Management, Perpetual, Jamieson Coote Bonds, Bell Asset, and Pendal. Includes firms with less than USD 100 billion in open-end fund and ETF assets under management globally. Excludes money market funds, funds of funds, and feeder funds. Data as of Aug. 31, 2022.

Not all small firms get top marks, however. Some, including Fundsmith and Eastspring, are rated Low. The former incorporates some ESG data into the investment process but focuses primarily on governance matters such as business strategy and product innovation. Its focus rarely translates to the level of environmental and social engagement. Eastspring's work to formally integrate ESG research into its investment process is still nascent.

Meanwhile, larger firms, which typically serve a broader spectrum of investors with various needs and ESG preferences, tend to have lower ratings. The top 10 managers in our sample include seven firms rated Basic and three rated Low. These managers built their businesses through commendable strategies such as low-cost investing, technological innovation, and sharp stock-picking, but sustainable investing is a lower priority in the firms' philosophies.

The exhibit below shows the 34 firms with more than USD 100 billion in fund assets and their corresponding ESG Commitment Levels.

Exhibit 4 The Largest Asset Managers by ESG Commitment Level



Source: Manager Research and Morningstar Direct. Includes firms with more than USD 100 billion in open-end fund and ETF assets under management. Excludes money market funds, funds of funds, and feeder funds. Data as of Aug. 31, 2022.

There are exceptions though. Amundi and UBS Asset Management, two large European managers, earn ESG Commitment Levels of Advanced. Amundi has reached this level through an ambitious effort to apply ESG criteria to its entire range wherever technically possible and to ensure that a majority of its active funds maintain overall ESG ratings above their respective benchmarks. Similarly, UBS has made a concerted effort to embed more ESG considerations into its investment process and engagement program in recent years, with a focus on climate issues.

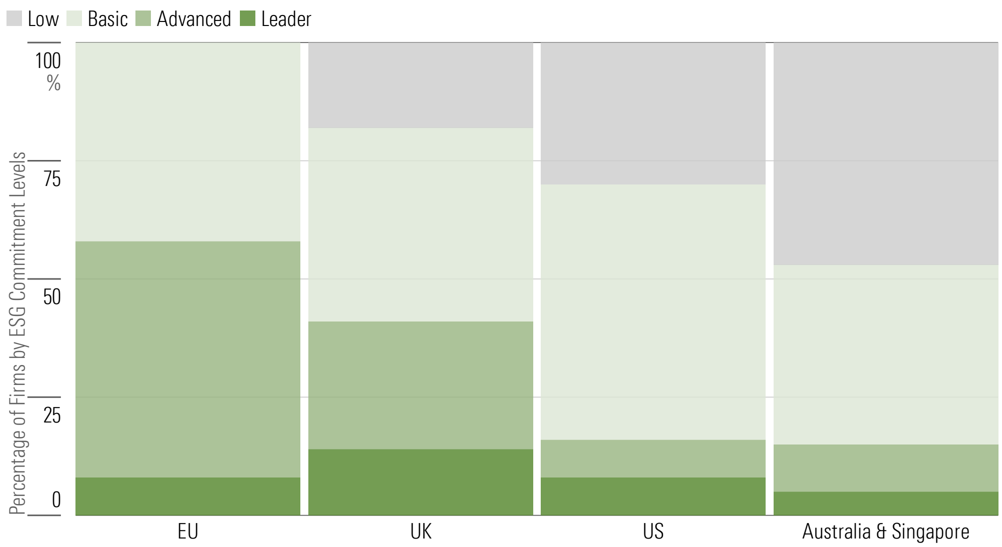
Europe Leads the Way

Looking at the nationality of the 94 rated firms, we can see that fund firms headquartered in Europe tend to rank highly under the ESG Commitment Level. Of the major markets, Europe is the only one where more than half of the managers under coverage earn ESG Commitment Levels of Leader or Advanced.

The U.K. is right on Continental Europe's heels, with nine out of 22 firms earning ESG Commitment Levels of Leader or Advanced. Furthermore, out of the four major markets covered here, the U.K. has the highest proportion of Leader firms, including Impax, Affirmative Investment Management, and Stewart Investors.

The U.S. matches the U.K. in terms of the number of firms earning Leader, including Parnassus, Calvert, and Boston Trust Walden. However, more than half of the U.S. firms under coverage land at Basic, and 12 earn Low.

Exhibit 5 Asset Managers by ESG Commitment Level and Headquarters



Source: Manager Research. EU includes 12 firms, U.K. 22, U.S. 39, and Australia & Singapore includes 21. Data as of Nov. 30, 2022.

In Australia, there are nearly as many Basic firms as there are Lows. This result is hardly surprising as firms in Europe and the U.K. tend to lead the way on ESG best practices, while U.S. and Australian firms are typically still catching up.

Europe's advantage in sustainable investing is driven at least in part by local investor preferences. Since the 1970s, for example, Norway's sovereign wealth fund has developed sustainability criteria within its investment objectives, setting a standard for other large Nordic asset owners to follow. In recent years, the EU Action Plan on Sustainable Finance, which aims to reorient capital flow toward sustainable activities, and the Sustainable Finance Disclosure Regulation have accelerated the adoption of ESG strategies by investors across Europe.

Although sustainable strategies have also grown rapidly in the U.S., the pace of this acceleration continues to lag Europe, largely because of the political and regulatory environment. U.S. regulation has fluctuated between a neutral stance and open opposition by the previous administration of Donald Trump.[6] More recently, the Securities and Exchange Commission has proposed rules that would increase

[6] Trump's Labor Department Really Doesn't Want You to Have ESG Options in Your 401(k) Plan, Jon Hale, Ph.D., CFA, July 23, 2020. https://www.morningstar.com/articles/992908/trumps-labor-department-really-doesnt-want-you-to-have-esg-options-in-your-401k-plan

reporting requirements for public companies,[7,8] ESG-branded funds,[9] and all funds that use ESG criteria in their process.[10,11,12] These disclosure rules should create a clearer and more accessible environment for ESG-focused investors.

U.S. asset managers have long taken a strict shareholder value approach to their dealings with company boards and management in part because of the narrow definition of fiduciary duty in the U.S., which requires that managers focus on maximizing financial returns for shareholders. This contrasts with the European view that fiduciary responsibility encompasses a broader range of issues, including the impact of companies on the environment and society at large (known as "double materiality").

In this context, large asset managers such as BlackRock, Vanguard, and Fidelity Investments face challenges when it comes to using all of the features in the ESG toolkit. For example, their outsize position in the markets precludes them from proposing or sponsoring shareholder resolutions, which are crucial tools for investors who aim to drive sustainable change through active ownership.[13,14,15,16]

Stewardship Initiatives and Collaborative Engagements

Much of the momentum behind global investment stewardship efforts comes from rising public concern and a growing sense of political urgency about the climate crisis. More pointedly, since the Paris Agreement on climate, active ownership has been viewed as an indispensable tool in shaping corporate behavior toward the global goal of net-zero carbon emissions by 2050.

The launch of the Net Zero Asset Managers Initiative in December 2020 was an important moment in advancing collaborative active ownership practice. As of November 2022, 291 asset managers responsible for over USD 66 trillion of assets committed to "support the goal of net zero greenhouse gas emissions by 2050, in line with global efforts to limit warming to 1.5 degrees Celsius above pre-industrial

7 United States Securities and Exchange Commission. March 21, 2022. SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors. https://www.sec.gov/news/press-release/2022-46

8 What We Told the SEC About Climate-Related Risk Disclosures. Aron Szapiro. June 17, 2022. https://www.morningstar.com/articles/1098889/what-we-told-the-sec-about-climate-related-risk-disclosures

9 United States Securities and Exchange Commission. May 21, 2022. SEC Proposes Rule Changes to Prevent Misleading or Deceptive Fund Names, Fact Sheet. https://www.sec.gov/files/ic-34593-fact-sheet.pdf

10 United States Securities and Exchange Commission. May 25, 2022. SEC Proposes to Enhance Disclosures by Certain Investment Advisers and Investment Companies About ESG Investment Practices, Fact Sheet. https://www.sec.gov/files/ia-6034-fact-sheet.pdf

11 The SEC's Proposal Is a Good First Step for ESG Disclosures. Aron Szapiro. Nov. 9, 2022. https://www.morningstar.com/articles/1124201/the-secs-proposal-is-a-good-first-step-for-esg-disclosures

12 SEC Proposes New Rules for Sustainable Funds Aimed at Standardizing ESG Disclosures. Jon Hale, Ph.D., CFA. May 27, 2022. https://www.morningstar.com/articles/1096343/sec-proposes-new-rules-for-sustainable-funds-aimed-at-standardizing-esg-disclosures

13 Under the U.S. Federal Trade Commission's Hart-Scott-Rodino Rules, certain transactions – including minority acquisitions of voting securities above a certain dollar threshold – require a premerger notification filing to the commission and the Antitrust Division of the U.S. Department of Justice. Two exemptions exist that allow asset managers to acquire public equity securities on behalf of clients without interrupting the flow of daily business, commonly referred to as the "institutional investor exemption" and the "investment-only exemption," but these exemptions are accompanied by additional red tape. Specifically, they depend on an investor having "no intention of participating in the formulation, determination, or direction of the basic business decisions of the issuer." This includes a restriction on nominating candidates to the issuer's board, proposing actions requiring shareholder approval, or soliciting proxies.

14 https://www.blackrock.com/corporate/literature/publication/ftc-hsr-coverage-exemption-transmittal-rules-020121.pdf

15 16 CFR 801.1.

16 Premerger Notification; Reporting and Waiting Period Requirements, 43 FR 33450, 33465 (July 31, 1978).

levels."[17,18] By November, nearly 60% of signatories disclosed interim targets aligned with that goal. The commitment specifically requires that asset managers "implement a stewardship and engagement strategy, with a clear escalation and voting policy, that is consistent with [the initiative's] ambition for all assets under management to achieve net zero emissions by 2050 or sooner."

This initiative overlaps existing collaborative engagement initiatives like Climate Action 100+. Formed in 2017, this global collective of 700 asset owners and asset managers now represents more than USD 68 trillion in assets under management. Members commit to leading or participating in engagements with the world's largest greenhouse gas emitters, asking them to:

1. Implement a strong governance framework on climate change;
2. Take action to reduce greenhouse gas emissions across the value chain; and
3. Provide enhanced corporate disclosure.[19]

Other investor-led initiatives spanning broader ESG themes include the United Nations-supported Principles for Responsible Investment, the Interfaith Center for Corporate Responsibility, and The Investor Forum.

This kind of broad-based engagement is gaining in importance as investors' attention widens from climate and the environment to a range of social factors including diversity, equity, and inclusion; workplace practices and worker treatment; racial inequality; human and civil rights; and reproductive rights.

Investment institutions can shape marketwide practices using their influence. This is increasingly important at a time when systemic issues such as climate change and extreme socioeconomic inequality pose significant threats to capital markets over the long term. They also present a unique challenge to investment decision-makers, as these issues introduce risks that cannot be mitigated by diversifying their portfolios.

Regulators, too, are increasingly taking a keen interest in active ownership practices. For example, the SEC's proposed rule on asset managers' ESG disclosures[20] focuses strongly on whether asset managers' claims of commitment to ESG investing are backed up by their voting record at shareholder meetings and their engagement with management on environmental and social issues. Also, the EU Sustainable Finance Disclosure Regulation requires funds categorized as general ESG or sustainable funds (known as Article 8 and Article 9 funds) to identify "principal adverse impacts" and describe how they intend to

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17 The Net Zero Asset Managers Initiative. Nov. 9, 2022. Net Zero Asset Managers Initiative Announces Initial Targets for 86 Investors as Total Number of Asset Managers Committing to Net Zero Increases to 291. https://www.netzeroassetmanagers.org/net-zero-asset-managers-initiative-announces-initial-targets-for-86-investors-as-total-number-of-asset-managers-committing-to-net-zero-increases-to-291/

18 These statistics do not reflect the fact that Vanguard withdrew from NZAMI in December 2022. Vanguard. Dec. 7, 2022. An Update on Vanguard's Engagement with the Net Zero Asset Managers Initiative (NZAM). https://corporate.vanguard.com/content/corporatesite/us/en/corp/articles/update-on-nzam-engagement.html

19 See the Climate Action 100+ website for further details.

20 "SEC Proposes to Enhance Disclosures by Certain Investment Advisers and Investment Companies About ESG Investment Practices", SEC Press Release, May 25, 2022.

address them through engagement. Furthermore, the U.K.'s "Greening Finance" regulatory road map[21] emphasizes the importance of investment stewardship, with a particular focus on monitoring and engagement strategies, escalation and collaboration, and voting practices.

Looking at proxy voting, shareholders have also brought environmental and social proposals to the ballot more frequently. However, in response to shareholder engagement, management teams at many companies have introduced "Say on Climate" votes, where shareholders are asked to approve climate transition plans on an advisory basis. Asset managers also often vote against director elections as a means of expressing dissatisfaction with the quality of reporting or corporate practice on key ESG issues. These voting decisions send important signals to analysts about asset managers' commitment to sustainable investing.

21 "Greening Finance: A Roadmap to Sustainable Investing", HM Government, October 2021.

Deep Dive Into the Three Pillars and What We Consider Best Practices

To develop our view of asset managers, we assess the following three pillars: Philosophy & Process, Resources, and Active Ownership. In this section, we discuss the significance of each pillar and how we evaluate them. We also share what we consider best practices.

Philosophy & Process

The Significance of Philosophy & Process

In the asset-management industry, a firm's investment philosophy underpins every facet of the organization. Firms seek and attract talent that is aligned with their investment beliefs, and their cultures are built around the investment offerings. This philosophy typically dictates the flow of resources, which in turn often guides investment success.

As flows to sustainable products have skyrocketed in recent years, more and more asset managers are launching ESG strategies to meet the rising demand.[22] However, it takes time to develop a deeply rooted culture of sustainable investing. For this reason, firms with a long history of ESG-investing practices, together with a well-integrated central philosophy of sustainability, have an edge over peers that are newer to the space.

How Morningstar Analysts Evaluate Philosophy & Process

Of the three pillars that make up the Morningstar ESG Commitment Level, Philosophy & Process receives the highest weighting, at 40% of the overall score. The Philosophy & Process Pillar examines a firm's history of sustainable investing and its importance within the firm's culture and investment strategies.

To assess these elements of a firm, Morningstar analysts consider a range of factors, including the firm's history as a signatory to the U.N.-supported Principles for Responsible Investment, commitment to the Net Zero Asset Managers Initiative, and role in industry-leading shareholder coalitions such as Climate Action 100+. We seek to understand the breadth and depth of ESG integration in the fund lineup. As consideration of financially material ESG risks becomes mainstream, leading asset managers go a step further by assessing the impacts, both positive and negative, that companies and investments have on the environment and society at large. Centralized risk oversight and robust minimum requirements for

22 Global Sustainable Fund Flows: Q3 2022 in Review, Morningstar Research, Oct. 27, 2022. https://assets.contentstack.io/v3/assets/blt4eb669caa7dc65b2/blt77ddb1651bd21f15/Global_ESG_Q3_2022_Flow_Report_FINAL.pdf

portfolios underpin strong ESG-integration programs. We also look for accountability and incentives surrounding sustainability goals at all levels of the organization.

For a firm's ESG commitment to be taken seriously, its sustainable-investment philosophy should also be reflected in the organization's internal practices, known as corporate social responsibility. This may include initiatives such as pay parity, retention of diverse talent, and carbon footprint measurement and reduction. That said, some firms with strong cultures of investment oversight, which may be highly regarded on the Morningstar Parent Pillar rating, fall behind peers on ESG-related investment efforts.

Best Practices

For the asset managers who sit at the higher end of the spectrum, sustainable investing is core to the firm's identity. The firm operates from a shared belief that sustainability goals go hand in hand with long-term financial return, and this is reflected at all levels of the organization. In the strongest cases, this philosophy of a dual outcome is evidenced in the firm's investment offerings. In addition to ESG-focused strategies, these asset managers commonly mandate a firmwide minimum level of compliance with ESG goals and restrictions.

Furthermore, for these asset managers, sustainable investing is not a new initiative. Asset managers that earned a Morningstar ESG Commitment Level of either Advanced or Leader signed the Principles for Responsible Investment more than a decade ago. That is remarkable when you consider the principles launched less than 20 years ago. By that time, most of these firms already had formal ESG policies and had integrated ESG principles into their investment offerings.

Firms that earn top marks are transparent about the purpose of ESG considerations in their investment portfolios and how their overall investment philosophy aligns with ESG principles. These firms have established clear and detailed ESG policies, which are implemented consistently and effectively at all levels of the organization, from the board level down through investment analysts. They are open, too, about the sustainability characteristics of their strategies, a key tool in empowering investor choice.

Strong internal cultures of sustainability drive continued innovation in the space. As best practices for ESG investing have developed in recent decades, these firms have stayed at the forefront by incorporating new research into investment strategies, promoting improved disclosures in portfolio companies, and collaborating with regulators and peers to raise sustainability standards. Investors can be confident that these firms have the internal frameworks to stay competitive in ESG investing strategies and that sustainability is genuinely integrated throughout the firm's culture rather than hastily constructed in an effort to catch up with growing demand.

Exhibit 6 highlights common observations for each dimension of the Philosophy & Process Pillar, broken down by ESG Commitment Level.

Exhibit 6 Morningstar's Approach to Evaluating Philosophy & Process

	Low	Basic	Advanced	Leader
Philosophy	The firm is just getting started on its ESG journey. If there is an ESG investment policy, it is likely brief, focused primarily on governance, and/or recently established.	The firm has an ESG investment policy, but it is likely recently established and focused on mitigating ESG risks.	The firm's investment policy is comprehensiveand includes consideration of all firm stakeholders. ESG may be a central principle of the firm's culture, but it has likely only become core in the past few years.	The firm's investment philosophy reflects a strong history of ESG investing practices. Policies go beyond ESG risk mitigation to capitalizing on ESG opportunities and driving impact. Sustainability is a core consideration for internal firm structure and all operations.
Process	Some portfolio managers consider ESG risks and opportunities. If the firm offers ESG-focused strategies, they may focus on one asset class or represent a small portion of the firm's total AUM.	ESG considerations are integrated in a substantial portion of assets, across several asset classes. ESG integration is recently formalized. The firm may have a plan to integrate sustainability across all asset classes, but it isn't there yet.	ESG integration covers a majority of the firm's assets and spans most asset classes and strategies. The process is systematic, but it may not apply to all strategies. The asset manager implements some firmwide exclusionary screens.	ESG risks and opportunities are systematically integrated across the full lineup of investment strategies. The firm has a clear policy on dynamic exclusionary screens and/or minimum ESG criteria for all strategies.

Source: Manager Research Analysts.

Resources

The Significance of Resources

Sustainable investing is complex and requires specialized expertise and robust resources, in terms of people, data, and systems. There is no one-size-fits-all organizational structure. In some cases, having separate teams of ESG experts who provide support to investment teams makes sense. In other cases, ESG knowledge resides within investment teams.

How Morningstar Analysts Evaluate Resources

Of the three pillars that make up the Morningstar ESG Commitment Level, Resources receives 30% of the overall score. The Resources Pillar looks at the ESG data sources the firm uses, the ways in which the firm uses the data and ensures that it is propagated to research teams, and the extent and experience of firmwide ESG specialist resources and how they work with investment teams across the firm.

To assess these elements, Morningstar analysts consider a range of factors, including the expertise, size, and tenure of ESG specialist teams. We look at the level of collaboration between ESG specialists and investment teams. In many cases, a firm has separate teams dedicated to proxy voting and stewardship, ESG research in the investment process, and internal efforts around corporate sustainability and governance. Therefore, it is important to understand the extent of overlap and coordination among these teams. We evaluate the relative level of ESG knowledge for all portfolio managers and researchers, and we examine the role ESG integration plays in compensation incentives.

The Resources Pillar also examines the quality and quantity of ESG data, research, and analytics made available to investment teams. To evaluate these aspects of a firm, Morningstar analysts assess the extent to which ESG data is easily accessible and well-integrated in the investment team's research process. Over the past few years, many firms have developed proprietary analytical frameworks that draw on third-party data. We assess the amount of time these systems have been in place and how they factor into the firm's investment process.

Best Practices

The asset managers who sit at the higher end of the spectrum boast well-staffed, well-integrated teams of sustainable-investment and stewardship experts in addition to robust, effective ESG data and research. All investment professionals at the firm possess a certain level of proficiency in sustainability topics, and designated ESG specialists are committed to advancing ESG knowledge, both within the organization and for the industry at large.

Many of the firms that earned Advanced or Leader have a centralized team of full-time ESG investment experts. They collaborate actively with subject-matter experts on climate science or other sustainability themes. If this expertise is not centered in-house, firms may partner with academic institutions or industry coalitions. However, when working with external experts or designating separate teams to specialize in sustainability research, it is important that firms ensure a high level of overlap and collaboration with portfolio managers and analysts. Teams that are siloed from one another are unlikely to achieve investment success.

While many firms choose to centralize ESG-investing efforts on a specialized team, this is by no means the only worthwhile approach. Some firms have adopted a more holistic approach, opting to train all investment professionals on sustainability topics. In this approach, we see the strongest firms have carved out time and capacity for all investment professionals to integrate ESG research into the process and to continue learning, as the field continues to evolve rapidly. In addition, the strongest examples of a more decentralized approach commonly pair this with strong risk management and oversight, ensuring that teams comply with the firm's guidance on integrating ESG criteria.

Firms that earn top marks on Resources empower their investment teams with robust, reliable ESG data and research. In recent years, the availability of data relevant to sustainable investing has skyrocketed, as has the number of third-party ESG data providers. In asset classes where third-party data is less readily available, leading firms have brought the matter in-house and created frameworks to evaluate ESG risks and opportunities. A paucity of global consensus around ESG data does not prevent sustainability-focused firms from tackling material issues.

For the strongest asset managers, access to multiple data sources is essential, but quality is more important than quantity. Therefore, each of these firms has developed a proprietary framework, typically drawing on primary and secondary research, to reach a house view of ESG risks and opportunities within the investment universe. This research is easily accessible and used by all investment teams. Furthermore, the strongest asset managers are committed to constantly iterating upon the ESG research available to their teams, often by adjusting the framework to incorporate new disclosure standards, objectives, or data points.

Exhibit 7 highlights common observations for each dimension of the Resources Pillar, broken down by ESG Commitment Level.

Exhibit 7 Morningstar's Approach to Evaluating Resources

	Low	Basic	Advanced	Leader
People	If the firm has designated ESG specialists on the research and investment teams, this is likely a new initiative for the firm, a small team compared with the broader organization, or only an auxiliary focus for these individuals.	Some portfolio managers demonstrate knowledge of sustainability topics, but the investment group may be siloed from the ESG specialist team. The firm may offer centralized sustainability training, but adoption throughout the firm is not widespread.	The firm has a well-resourced team of ESG specialists who collaborate regularly with investment teams. This group may be recently formalized, or it may still be expanding. Portfolio managers demonstrate some knowledge of sustainability topics. ESG is a component of compensation incentives for some, but not all, teams throughout the organization.	The firm has a stable, well-resourced team of ESG specialists who collaborate closely with investment teams. The ESG specialists demonstrate a high level of ESG expertise, and the firm is committed to ongoing training to stay at the forefront of sustainability research. In addition to developing insights for investment activities, this team produces industry-leading research on thematic sustainability topics. ESG is a key component of compensation incentives for all teams throughout the organization, underlining its importance to firm success.
Data	The firm has invested in some ESG research, but it is optional or not well-integrated in the investment process.	The firm has invested in third-party ESG research and data. These insights are readily available and well-integrated in most investment processes. The firm may build on third-party data with proprietary analysis.	Investment teams have ready access to multiple third-party ESG data sources. The firm has developed a robust proprietary framework for evaluating sustainability issues in most asset classes. This research is well-integrated throughout the investment process, and adoption by portfolio managers is strong.	The firm has developed a robust and innovative proprietary framework for evaluating sustainability issues. This framework is time-tested and spans all asset classes and investment mandates. This framework and investment teams may still draw on third-party ESG data, but in-house research is the primary driver of ESG insights.

Source: Manager Research Analysts.

Active Ownership

The Significance of Active Ownership

Active ownership is where an asset manager's ESG philosophy, process, and resources are put into action. It is the direct influence that investors bring to bear by exercising the control rights their fiduciary responsibility requires on behalf of their clients in the strategies and products they offer. This mainly includes share ownership rights, but asset managers are also seeking ways to embed active ownership in management of fixed income and other asset classes.

How Morningstar Analysts Evaluate Active Ownership

Active Ownership carries a 30% weighting in the overall ESG Commitment Level evaluation and takes into account an asset manager's policies, disclosures, and practices linked to proxy voting, engagement, policy advocacy, and collaborations with other investors to scale influence.

Morningstar analysts evaluate the range of stewardship tools available to asset managers. We look at how managers engage with company boards and management on ESG areas where they would like additional disclosure or changes in practice, either individually or through collaborative initiatives; as well as how they communicate expectations of companies and provide transparency to investors and other stakeholders by publishing engagement and voting policies. It is also important to ascertain how managers escalate concerns after a period of unsuccessful engagement: either by making their concerns public, through targeted voting against management resolutions or director elections, by submitting shareholder proposals, or ultimately by exiting their investment where possible. A final key element is our assessment of managers' activities in advocating for public policies that seek to improve disclosures and promote marketwide improvements in corporate practices on key ESG themes.

Best Practices

Asset managers' active ownership practices have historically focused on corporate governance themes, and some asset managers continue to reinforce a short-term view of shareholder value creation, but sustainable investing requires a long-term perspective on environmental and social issues, too.

Best practices have progressed in lockstep with market expectations. Responding to client demand and growing regulatory scrutiny, asset managers with ESG Commitment Levels of Leader or Advanced are taking steps to demonstrate that their active ownership efforts are applied consistently across their portfolios. They have also invested heavily in their internal systems to track engagement and escalation with investee companies, ensure policy-aligned voting, and deliver clear reporting of stewardship activities to investors.

Asset managers demonstrating commitment to sustainable and responsible investing usually set basic expectations of investee companies on major ESG issues, including climate-related reporting, net-zero transition plans, and board-level diversity (particularly in the U.S. and Europe) in their voting and engagement policies.[23]

Managers' stated policy goals should be reflected in their voting and engagement record. We analyze key ESG resolutions—that is, shareholder resolutions on environmental and social themes that are supported by more than 40% of a company's independent shareholders—to assess this. Managers with ESG Commitment Levels of Leader or Advanced tend to consistently support more than half of all key ESG resolutions. Highly rated managers also tend to centrally coordinate engagements with investee companies, using the expertise of stewardship and ESG specialists to manage escalations, long-term engagements, and multistakeholder collaborations.

Managers with Advanced ESG Commitment Levels also publicly report the results of their voting and engagement activities with evidence of how they have challenged companies that fall short of their ESG expectations and how they have supported shareholder resolutions that are aligned with their stated ESG objectives. Leader-rated firms tend to go a step further, publicly disclosing rationales behind important voting decisions and detailed outlines of engagement processes.

23 See also our July research paper: Proxy Voting: Managers Focus on Environmental and Social Themes

Investment stewardship should be guided by an overarching vision and strategy for change. Furthermore, engagement activities, voting, and other efforts should be outcome-oriented. Faced with increasing polarization of views on ESG topics, it is doubly important for managers to demonstrate that they will cleave to their stated principles on sustainable and responsible investing.

Exhibit 8 below summarizes typical observations for each of the three dimensions that comprise the Active Ownership Pillar at each ESG Commitment Level.

Exhibit 8 Active Ownership: Evaluating Asset Managers' Policy, Practice, and Transparency

	Low	Basic	Advanced	Leader
Policy	Proxy voting, engagement and general stewardship policies are absent or very basic, possibly focusing primarily on governance and business strategy while addressing environmental and social issues only in very broad terms.	Proxy voting, engagement and general stewardship policies are present and set objectives and expectations regarding the most common ESG themes (e.g. climate, board diversity).	Proxy voting, engagement and general stewardship policies reach a Basic level, and also provide granular guidance discussion of important issues, including ESG topics less commonly covered by other managers.	Proxy voting, engagement and general stewardship policies reach an Advanced level. Additionally, detailed guidance and investor briefs that further explain the asset manager's position on key ESG themes are also published.
Practice	Low proxy voting support (broadly, less than 30%) for key ESG resolutions. No engagement activity, or engagements are primarily led by portfolio managers rather than ESG and stewardship experts.	Significant proxy voting support (around 30-50%) for key ESG resolutions. Evidence of engagement activity is present but often lacks clear objectives, especially on environmental and social themes. Evidence of proxy voting and engagement activity, but with an absence of central coordination across strategies.	High proxy voting support (well above 50%) for key ESG resolutions. Evidence that the asset manager centrally coordinates engagements, escalations and proxy voting in line with clearly defined ESG objectives, drawing on the expertise of the stewardship team, proxy voting committee, and ESG specialists.	Proxy voting and engagement practices reach an Advanced level, plus the asset manager participates in: ► multi-stage, long-term engagements with clear objectives and milestones; ► collaborative engagements (such as Climate Action 100+); ► shareholder resolutions as a filer or co-filer.
Transparency	Public disclosure of engagement and proxy voting policies and activities is limited or absent.	Proxy voting results are disclosed only at a high level. Engagements described but companies engaged are rarely identified even when this would not threaten the engagement outcome. Engagement case examples are described in broad terms.	Proxy voting results are disclosed at least annually and in detail. Engagement activities are disclosed with detailed explanations of engagements and relevant votes. The asset manager's escalation strategy is disclosed, where relevant. Voting intentions for important shareholder meetings are often communicated in advance.	Proxy voting and engagement disclosure reaches an Advanced level, plus publication of: ► a full vote record and summary of votes on the manager's website; ► manager rationales for significant voting decisions; and ► an engagement report containing a full outline of the engagement process with detailed case studies

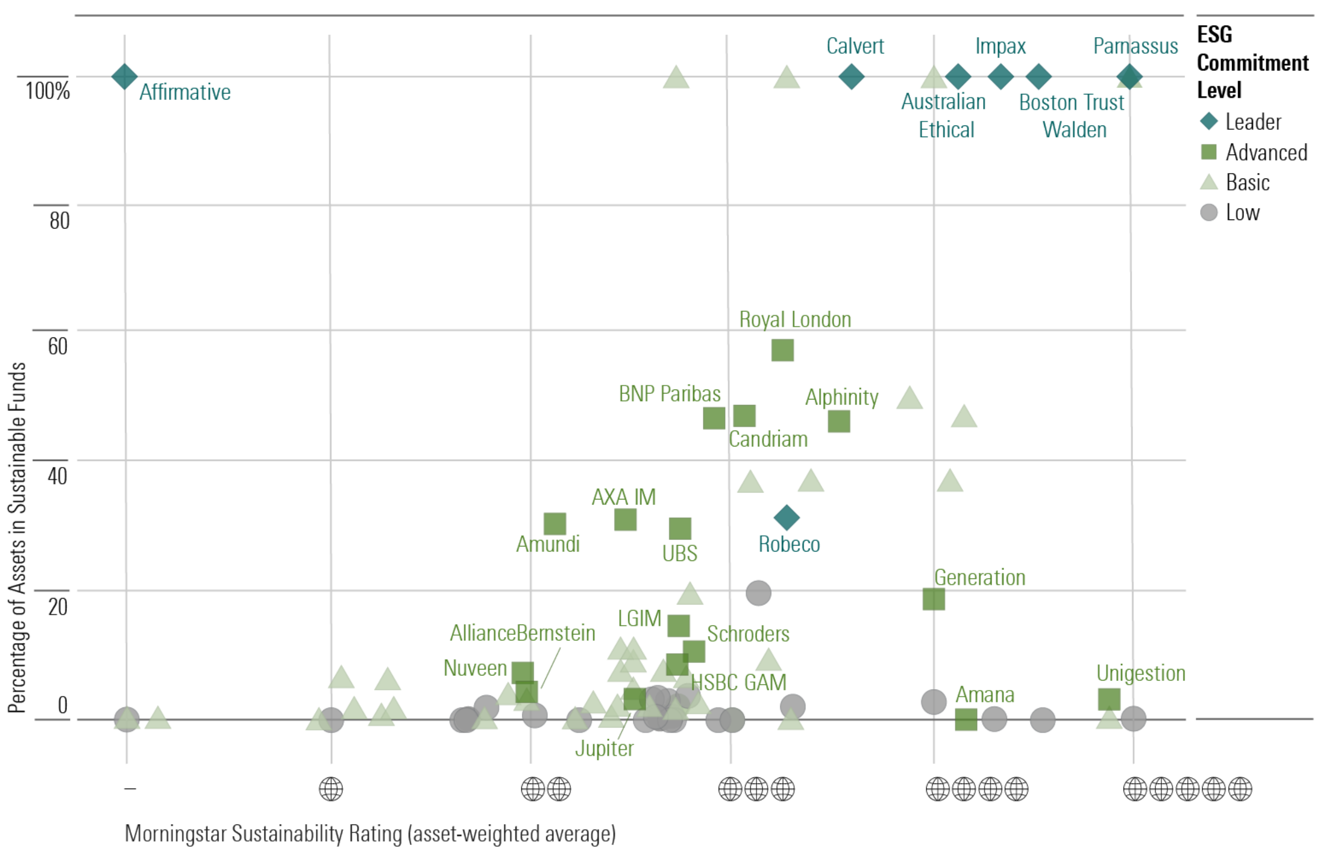
Source: Manager Research Analysts. Note: "Key ESG resolutions" are generally shareholder resolutions that are supported by 40% or more of a company's independent shareholders.

Examining the Fund Lineups of Asset Managers

Leader-Rated Firms Tend to Offer More ESG-Focused Funds and Funds With Lower ESG Risk

The exhibit below shows the relationship between ESG Commitment Levels, the percentage of assets in ESG-focused funds[24] (as defined and classified by Morningstar), and the Morningstar Sustainability Rating (a peer-relative measure of ESG risk). These two metrics are not a formal input to the Morningstar ESG Commitment Level methodology, but they complement one another.

Exhibit 9 Relationship Between ESG Commitment Level, ESG-Focused Funds, and ESG Risk



Source: Manager Research and Morningstar Direct. Includes open-end funds and ETFs for all asset managers under ESG Commitment Level coverage. Excludes money market funds, funds of funds, and feeder funds. Note: Funds for which "Sustainable Investment-Overall" is blank are classified as non-ESG funds. Data as of Aug. 31, 2022.

24 The global sustainable fund universe encompasses open-end funds and exchange-traded funds that, by prospectus or other regulatory filings, claim to use environmental, social, or governance factors as a central focus of their investment process.

As shown in the exhibit above, there is something of a correlation between a firm’s percentage of assets in ESG-focused funds and its ESG Commitment Level. Firms with a high percentage of assets in ESG funds tend to score high (Leader), while those with a small percentage of assets in ESG funds commonly earn Basic or Low, but exceptions exist.

Out of the eight Leader firms, Robeco is the only one that is not a pure-play ESG shop (only 31% of its fund assets are held in ESG-focused funds). With more than double the assets overseen by Parnassus and more than triple the number of funds Calvert offers, Robeco is by far the Leader with the most diverse fund lineup. Still, Robeco was an early mover in the sustainable-investing space and has built upon that heritage to develop topnotch ESG research and frameworks for ESG integration that apply to all equity and fixed-income funds, regardless of whether they target a sustainable mandate.

Meanwhile, a handful of pure-play ESG shops land at Basic, namely Bell, Eventide, Nanuk, and Veritas. In the case of Eventide and Nanuk, relatively slim resources mean the firms have not been able to catch up with peers on measures such as public disclosure of engagement priorities and results. Transparency is a weakness for Bell and Veritas, too, which do not yet provide ESG metrics on fund factsheets, despite ESG being a focus for all funds under management. The publishing of fund-specific ESG metrics empowers investors to make well-informed choices.

Even without targeting a sustainable mandate, some funds’ processes lead to lower levels of ESG risk (that is, their firms’ bubbles land further to the right). On this measure, Ariel outranks many peers with higher ESG Commitment Levels, including Calvert, Australian Ethical, and Impax—three firms that receive ESG Commitment Levels of Leader. Ariel’s ESG Commitment Level is held back by a nascent effort to integrate ESG criteria (kicked off in 2020) and a relatively slim team’s broad global remit.

Performance

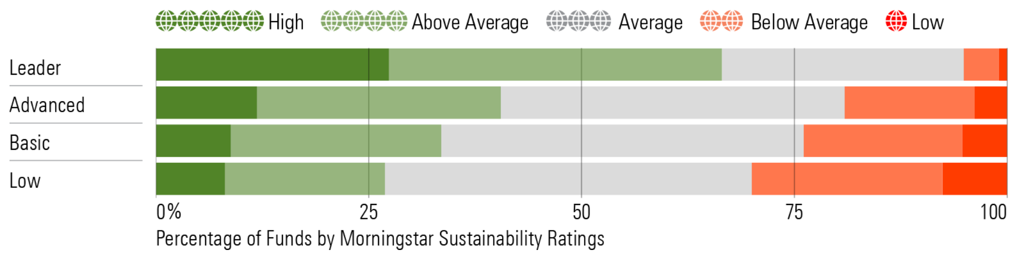
Limiting ESG Risk: The Morningstar Sustainability Rating

In this section, we evaluate how well the 94 asset managers in our sample limit their portfolios’ exposure to ESG risk (compared with peers) using the Morningstar Sustainability Rating. As mentioned above, the Sustainability Rating is not a direct input to the ESG Commitment Level methodology, in part because ESG risk is just one component of a strong sustainable-investing program. However, one would expect that industry-leading efforts to integrate ESG criteria into the investment process would lead to portfolios with lower exposure to ESG risk.

This is reflected in Exhibit 10. Two thirds of funds offered by Leader firms have less exposure to ESG risk, driving High or Above Average Sustainability Ratings (5 or 4 globes, respectively).

The exhibit below, which looks at the distribution of Morningstar Sustainability Ratings by ESG Commitment Level, confirms the positive correlation between ESG Commitment Level and low ESG risk. Two thirds of funds offered by Leader firms carry 4 or 5 globes, which means they have less exposure to ESG risk.

Exhibit 10 Distribution of Sustainability Ratings by ESG Commitment Level



Source: Manager Research and Morningstar Direct. Excludes funds with no Morningstar Sustainability Rating. Data as of Aug. 31, 2022.

Top Analyst Picks

The ability to outperform traditional benchmarks while pursuing sustainability initiatives has often seemed an elusive goal for investors. Using the Morningstar Analyst Rating together with the ESG Commitment Level, investors can now identify funds that deliver the best of both worlds.

The exhibit below shows the 14 sustainable funds offered by Leader asset managers that earn medals under the Morningstar Analyst Rating, which evaluates a strategy's potential for outperformance.

Exhibit 11 Morningstar Medalist Sustainable Funds Offered by Leader Asset Managers

Name	Asset Manager	Morningstar Analyst Rating	Morningstar Sustainability Rating	Morningstar Category	Inception Date	Fund Size November 2022 (USD Mil)
Parnassus Core Equity	Parnassus	Gold	🌐🌐🌐🌐🌐	US Fund Large Blend	8/31/92	25,484
Parnassus Mid Cap	Parnassus	Silver	🌐🌐🌐🌐🌐	US Fund Mid-Cap Blend	4/29/05	6,460
RobecoSAM Sustainable Water Equities	Robeco	Silver	🌐🌐🌐🌐	EAA Fund Sector Equity Water	10/29/20	3,496
Boston Trust Walden Small Cap	Boston Trust Walden	Silver	🌐🌐🌐🌐	US Fund Small Blend	12/16/05	1,046
Impax Environmental Markets	Impax	Silver	🌐🌐🌐🌐	EAA Fund Sector Equity Ecology	12/9/04	1,032
Impax Environmental Leaders	Impax	Silver	🌐🌐🌐🌐🌐	EAA Fund Sector Equity Ecology	1/12/16	242
Calvert Equity	Calvert	Bronze	🌐🌐🌐🌐🌐	US Fund Large Growth	8/24/87	6,103
Calvert US Large-Cap Core Responsible Index	Calvert	Bronze	🌐🌐🌐🌐	US Fund Large Blend	6/30/00	4,089
Calvert US Large-Cap Value Responsible Index	Calvert	Bronze	🌐🌐🌐	US Fund Large Value	6/19/15	1,867
Impax Global Equity Opportunities	Impax	Bronze	🌐🌐🌐🌐🌐	EAA Fund Global Large-Cap Growth Equity	1/2/15	757
Calvert International Responsible Index	Calvert	Bronze	🌐🌐🌐🌐	US Fund Foreign Large Blend	10/30/15	734
Parnassus Mid Cap Growth	Parnassus	Bronze	🌐🌐🌐🌐🌐	US Fund Mid-Cap Growth	12/27/84	717
Calvert US Large-Cap Growth Responsible Index	Calvert	Bronze	🌐🌐🌐	US Fund Large Growth	6/19/15	441
Calvert US Mid-Cap Core Responsible Index	Calvert	Bronze	🌐🌐🌐🌐	US Fund Mid-Cap Blend	10/30/15	400

Source: Manager Research and Morningstar Direct. Data as of Nov. 30, 2022.

One firm—Calvert—dominates the table, with six Morningstar Medalist funds, but Parnassus is the only Leader firm with a Gold-rated sustainability-focused fund. Parnassus applies the same firmwide ESG Philosophy & Process to each of its five strategies. This process includes initial exclusionary screens to filter out companies in controversial industries as well as a proprietary ESG assessment for each potential company. The resulting portfolios are concentrated, with a focus on downside protection and stable competitive footing. Management skillfully blends sound investing principles and ESG expertise in this compelling suite of funds.

Asset Manager Analysis

In this section, we share the full ESG Commitment Level analysis of the 94 asset managers under coverage. Asset managers are grouped by ESG Commitment Levels and subsequently listed in alphabetical order.

Leader

Affirmative Investment Management | Chris Tate | 1 January 2022

Sets an ESG standard to aspire to.

Affirmative Investment Management's dedication to sustainable fixed-income investing and advancing environmental initiatives is strong. It earns a Morningstar ESG Commitment Level of Leader.

Formed in 2014, AIM is early in its investment journey, but its environmental, social, and governance endeavors are well beyond its years. Responsible investing is integral to AIM's existence, targeting fixed-income portfolios that generate financial returns as well as meaningful environmental and social impact. All strategies are managed with a sustainability focus in line with the Paris Agreement and the United Nations Sustainable Development Goals. AIM's proprietary SPECTRUM framework incorporates a sustainability assessment directly into bond evaluation. Its ESG-focused approach is integrated firmwide and one we consider at the top-tier of ESG investing globally.

Despite turnover within AIM's sustainability team, substantial commitment to resourcing is a constant. In October, Fiona Reynolds joined the boutique from the United Nations-backed Principles for Responsible Investment in an advisory role, after former head of sustainability Judith Moore retired in 2021. The boutique manager maintains a seven-person dedicated team of experienced ESG and impact specialists. This group works in tandem with the firm's credit and portfolio management teams to evaluate issuers from a dual credit and sustainability perspective. All utilize their impact database, ARCH, which was developed internally and encompasses all sustainability and credit analysis. While third-party ESG data is used, qualitative research and data gathering forms the core of the team's analysis.

AIM isn't resting on its already lofty ESG standing in active ownership; it continues to raise the bar. Annual impact reports are the centerpiece, detailing the environmental and social impact across all portfolios. These impact reports ensure ongoing monitoring of debt issuers, evaluate the portfolios' level of alignment with U.N. SDGs, and provide an in-house analysis of avoided greenhouse gas emissions.

AIM is committed to engaging with company management on ESG issues, actively collaborating with global sustainability experts to support collective action along with involvement in several ESG-related associations.

Australian Ethical | Chris Tate, CFA | 1 January 2022
Comprehensive ESG integration merits solid acclaim.

Australian Ethical Investments is deserving of recognition but must evolve with global standards to maintain its first-rate status. It retains a Morningstar ESG Commitment Level of Leader.

Australian Ethical's overall philosophy is grounded in the 23 principles of its Ethical Charter, which remain unchanged since the firm's inception in 1986. This purpose-driven approach is evidenced by the robust integration of ESG research into all sustainability-focused solutions, spanning all asset classes. All underlying companies and investments pass comprehensive ethical, sustainability, and ESG screening to ensure support for the U.N. Sustainable Development Goals. Additionally, the firm avoids any investment that violates human rights or exacerbates climate change. Some impact measurement is undertaken with disclosure of ESG metrics beginning in 2021, allowing investors to identify the sustainable revenue impact based on each strategy's equity holdings.

The firm boasts an experienced ethics research team, led by Dr. Stuart Palmer. Prior to joining the company in 2014, Palmer was head of ethics services at St. James Ethics Centre (Sydney), helping promote ethical leadership and culture in organizations. He has the adept support of an expanding team of three ESG analysts. The ethics research team works in concert with the investment team, using a proprietary sector and ESG issues framework to produce qualitative research and ratings with the use of external data sources.

Australian Ethical could do better in active ownership. Proxy voting and ethical investment policies identify the firm's strategic proxy-voting and engagement priorities but guidance on environmental and social issues is detailed in sector and ESG issues frameworks, which aren't publicly available. The firm votes in favor of a high number of ESG resolutions, following recommendations from ISS with oversight from the ethics research team, as well as co-files and promotes shareholder resolutions through engagement at annual general meetings, for instance. The firm also engages with company management on numerous issues, including alignment to net zero by 2050 and climate policy.

Boston Trust Walden | Andrew Daniels, CFA, CMA | 1 November 2021
A pioneer and thought leader in the ESG investing arena.

Boston Trust Walden ranks near the top when it comes to ESG integration, meriting a Morningstar ESG Commitment Level of Leader.

Established in 1974, the firm has been a pioneer and thought leader in the environmental, social, and governance investing arena. In 1982, the firm began subadvising Calvert Social Investment Fund, the first U.S. mutual fund with socially responsible criteria, such as avoiding exposure to apartheid South Africa. What is more, the group filed the first socially focused shareholder resolution for a mutual fund in 1986 and has been a signatory of the United Nations-supported Principles for Responsible Investment since 2007. Today, 100% of the firm’s assets are managed with ESG considerations in mind, although only half—or those strategies with the Walden name branding—employ exclusionary screens designed to align with clients’ missions and values.

Still, the dedicated six-member ESG team is central to Boston Trust Walden's identity. Working alongside the firm's fundamental analysts, the ESG team is responsible for monitoring ESG impact as well as leading engagement and public policy initiatives. While the team is deep and boasts a wealth of experience, the pending retirements of longtime senior staffers Heidi Soumerai and Tim Smith (in December 2021 and December 2022, respectively) introduce some uncertainty. That said, the firm has been planning for such a transition since February 2019, when it hired a new experienced director of ESG, Amy Augustine from CERES, and it has continued to build out the team, so there is ample lead time before the ultimate retirements.

Where Boston Trust Walden really stands out is on active ownership. The firm has a clear policy for engagement—primarily focusing on climate risk, equality, and governance—and efforts are closely monitored and tracked in a transparent manner. When engagement efforts fail, the firm has regularly proved willing to lead or co-lead shareholder resolutions, while also participating in business letters and public policy initiatives. Overall, proxy voting is critical to the work the firm does, and it has a strong track record of voting in favor of ESG shareholder resolutions.

Calvert Research and Management | Gabriel Denis | 1 January 2022
Remains a standout despite a recent acquisition.

Morgan Stanley’s acquisition of Eaton Vance hasn’t upended Calvert Research and Management’s innovation and excellence within sustainable investing. The firm retains a Morningstar ESG Commitment Level of Leader.

Calvert has consistently positioned itself at the cutting edge of ESG investing. It launched the Calvert Social Investment Fund in 1982, proposed its first socially driven shareholder resolution in the mid-1980s, and was an inaugural signatory of the United Nations-backed Principles for Responsible Investment in 2006. Today, the firm curates a detailed set of investing principles that lays out exactly how its research and active ownership teams should account for ESG issues across their varying responsibilities. These guidelines remained intact first through Calvert’s 2016 acquisition by Eaton Vance and then through Eaton Vance’s 2021 acquisition by Morgan Stanley.

This more recent acquisition, however, has coincided with some volatility on Calvert's central ESG research team. Its former head of research, Jessica Milano, departed the firm at the end of 2020 and has not yet been formally backfilled. In addition, a further five ESG analysts departed the firm; although three analysts joined the team over that time frame, they are broadly less experienced than those who departed. Yet green shoots have emerged to offset these departures. The firm's sizable engagement, quantitative research, and impact reporting groups have grown both from external hires and internal rotations of legacy Morgan Stanley members. Emily Chew, Morgan Stanley's former head of sustainable investing, joined Calvert as its chief responsible investment officer in May 2021 and now serves as a bridge between this effort and Morgan Stanley's distinct ESG team and process.

The firm's personnel shifts haven't uprooted its robust research framework nor its strong proxy-voting and engagement guidelines. A sizable and growing set of third-party data providers and the firm's homegrown research power the former. Calvert's active ownership effort is similarly comprehensive and transparent, and its engagement team spearheaded several industrywide engagement initiatives over 2021.

Impax | Ronald van Genderen | 1 November 2022
Dedicated to sustainable investing.

Sustainable investing has been at the heart of Impax's culture since its foundation in 1998, and this is reflected in its product offering that is entirely geared toward sustainable funds. The firm's well-thought-out, thorough approach to sustainable investing, comprehensive and experienced resources, and strong active ownership practices earn Impax a Morningstar ESG Commitment Level of Leader.

At its foundation, the firm pioneered sustainable investing by focusing on solutions to resource scarcity, including areas like alternative energy, water, and waste. The firm has broadened its product lineup with, among others, fixed-income and private-market strategies ever since, while staying true to its focus on sustainability. The Listed Equity business nowadays accounts for around 70% of the USD 45 billion total firm assets. The strategies within this group invest in companies that can benefit from the transition to a more sustainable economy. Impax acquired U.S.-based Pax World in 2018, a like-minded firm, with which it had already cooperated for over a decade. The acquisition added a diverse set of strategies, including fixed-income, smart-beta, and U.S. equity funds, all of which thoroughly integrate ESG criteria in their approach. As per the end of December 2022, the Pax fund range will be rebranded to adopt the Impax label.

Across the fund range, the ESG integration occurs at all stages of the investment process and relies on the firm's robust proprietary ESG research and tools, including a proprietary company-level ESG review and score. The high quality of ESG research is further exemplified by the firm's regular publication of insightful thought leadership pieces.

Impax's commitment to sustainable investing also shines through its people. Each member of the 28-strong Listed Equity team is involved in ESG research, proxy voting, and company engagement efforts. This team is a sound mix of very seasoned and long-tenured sustainable investors and more junior members. Active ownership gets support from a dedicated team of eight members with solid experience; it carries out the ESG research, sets the engagement agenda, and executes proxy voting. The firm has invested heavily in both teams over the years, further underlining its commitment to sustainable investing.

Furthermore, Impax's sustainable-investing philosophy permeates its proxy-voting strategy. True to its DNA, the firm has voted in favor of all key ESG shareholder resolutions in each of the past three proxy seasons. Impax also regularly cooperates with other investors in their engagement efforts and uses policy advocacy to infuse good ESG practices. However, more transparency and detailed reporting around active ownership would be welcome.

Parnassus | Stephen Welch, CFA | 1 October 2021
Not satisfied with status quo.

While Parnassus has a long track record in environmental, social, and governance investing, it continues to adapt and build on its integrated ESG investment process. It earns a Morningstar ESG Commitment Level of Leader.

From humble beginnings around socially responsible investing, Parnassus has grown into a boutique leader in the field. The firm believes incorporating ESG research into its investment process improves both investment and social outcomes. Parnassus runs five strategies, all of which initially employ exclusionary screens to filter out companies that derive significant revenues from alcohol and tobacco products, controversial weapons, gambling, fossil fuels, nuclear energy, and thermal coal. The firm was an early adopter of the United Nations-backed Principles for Responsible Investment, signing in 2008, and is involved in numerous other ESG associations to keep up with pertinent issues.

Parnassus has made a few enhancements to its ESG investment process recently. In the past, the firm's four-person ESG stewardship team handled evaluating each potential investment's ESG risk. Now, the firm's 15-person fundamental investment team is responsible for assessing each company's material and reputational risk profile. Analysts leverage several third-party data sources to build a proprietary ESG assessment for each potential company. The ESG stewardship team remains responsible for driving what risk inputs are most important for each industry, which the fundamental analysts use to complete their assessments. Each ESG assessment is pitched to the CIO for approval. For the top-five riskiest holdings in each fund, an ESG stewardship analyst is also assigned to help monitor ongoing issues.

To help further focus the firm's in-depth research, Parnassus implemented a positive ESG exclusion list that is updated quarterly. This list consists of names that pass the exclusionary screens but fail upon further analysis. Companies on this list could include something more-obvious, such as a company involved in deforestation, or something more-nuanced, like a video-game company that derives significant revenue from a first-person shooter game.

Parnassus has clear proxy-voting guidelines and discloses all ESG-related information on its website, but even this Leader has room for improvement. Parnassus votes in favor of ESG-related issues, but the firm will not lead policy advocacy initiatives. The team believes having meaningful one-on-one interactions with corporate management is better for the firm's clients and a better use of its resources. Parnassus sends all companies in which it invests an introductory letter outlining what it considers the company's positive ESG attributes and areas for improvement. This list is published on the firm's website. Parnassus also publishes annual case studies on engagement issues, but the firm could provide more insight on steps taken. Overall, the firm's core commitment to ESG should continue to keep it a step ahead of its peers.

Robeco | Jeffrey Schumacher, CFA | 1 January 2022
Robeco remains a leader in sustainable investing.

Robeco has a long heritage in sustainable investing and continues to integrate and nurture ESG best practices, earning it a Morningstar ESG Commitment Level of Leader. Robeco has been a pioneer in sustainable investing for decades through RobecoSAM, which was founded in 1995 as Sustainable Asset Management. RobecoSAM became an affiliate of Robeco in 2007 and was fully integrated into Robeco in 2021.

ESG is integrated across all asset classes at Robeco, exemplifying its strong commitment to sustainable investing. The firm regularly disseminates educational ESG content and publishes various in-depth reports discussing its sustainability principles, practices, and active ownership results. However, we find it disappointing that the depth and quality of ESG data disclosed on its fund factsheets remain inconsistent across fund offerings.

Robeco has deep and dedicated resources to support its sustainability initiatives. RobecoSAM is the main source of proprietary ESG research for the group. The firm uses its own sustainability scores and frameworks, which are complemented by input and tools from several external providers. ESG research is also effectively shared among and used by the firm's portfolio managers and fundamental analysts. The investment teams closely collaborate with the firm's 46 sustainability experts, ensuring that ESG data and research is well-integrated in their investment processes and that the investment teams are closely involved with proxy voting and company engagement.

Robeco has a well-structured process in place for engagement, but its guidelines on voting are less detailed on environmental and social aspects than for some other sustainability leaders. Its transparency regarding proxy-voting activities is exemplary though, providing historical records since 2012 of its votes per fund on the company level and in-depth reports on voting activities, which includes a discussion of individual cases and voting rationales. The firm's reporting on engagement activities is primarily thematic, although case studies provide more insight on company-specific engagements. Robeco doesn't publicly disclose a list of companies under engagement and the progress made on the company level. The majority of Robeco's engagements are individual engagements, and we believe those are of high quality. The firm is also involved in various collaborative engagements and uses public-policy advocacy to try to improve the ESG credentials of companies and governments, regularly assuming a leadership role.

Stewart Investors | Michael Malseed | 1 December 2022
A sustainability leader.

Stewart Investors has very strong sustainability credentials and puts ESG at its core, making it among the industry's finest sustainability managers. While its Edinburgh arm run under the St. Andrew's Partners banner was closed in 2022 by First Sentier Investors following a strategic review, this only serves to cement the firm's focus on ESG, with the Sustainability Funds Group now responsible for all strategies. The firm earns a Morningstar ESG Commitment Level of Leader.

The firm has a clearly defined philosophy centered around stewardship. Its team members adhere to a code of conduct, which they call Hippocratic Oath, which governs their conduct and upholds Stewart's principles. The firm holds a high bar for portfolio inclusion and is clear with its investment rationale and company engagement, linking to specific sustainable development goals and outcomes. As such, ESG is ingrained into all aspects of the team's investment approach, and its frequent sustainability-focused thought pieces and reports are in-depth and insightful. The firm supports the transition to net-zero carbon emissions, committing to allocate capital to companies that are developing solutions to climate change.

The Stewart investment team largely relies on proprietary research, making very limited use of third-party ESG data to form its ESG evaluations and opinions. The team is deep and experienced. Given how ingrained ESG is into the firm, all analysts and portfolio managers take on ESG responsibilities. All team members are subject-matter experts. The Stewart teams are active and engaged shareholders, clearly defining their objectives and measuring specific sustainable development goals for their portfolio companies, such as introducing sustainable agriculture techniques and reducing packaging waste. The firm is an active shareholder, engaging with portfolio companies to drive better sustainability outcomes. Transparency is strong, with the firm publicly disclosing and providing rationales for all instances where it votes against resolutions.

Stewart has consistently demonstrated an unwavering commitment to ESG issues and boasts one of the industry's strongest sustainability philosophies.

Advanced

AllianceBernstein | Sam Kulahan, CFA | 2 August 2021

A strong active owner that has been ramping up its ESG resources.

AllianceBernstein has ramped up its environmental, social, and governance efforts in recent years and built a strong active ownership program. The firm's investment in ESG resources and solid approach to proxy voting and engagement stand out, though its approach to ESG integration is less robust. It earns a Morningstar ESG Commitment Level of Advanced.

AB signed the United Nations-backed Principles for Responsible Investment in November 2011 and has accelerated its ESG efforts in recent years. It was one of the earliest members of the Climate Action 100+ investor coalition, formed in 2017 as a collaborative engagement initiative. The firm provides support to its investment teams through data, training, and its 14-person centralized ESG team. While the firm provides its investment staff with a variety of external ESG data sources, it relies primarily on proprietary ESG evaluations. AB has built a central platform, called ESIGHT, for tracking ESG data, research, and engagements. In 2019, the firm teamed up with Columbia University to develop a climate science and investing curriculum and has since put more than 250 of its own investment professionals through the program. This initiative demonstrates AB's early leadership in fostering a science-based approach to investment analysis.

AB's central ESG team votes proxies with the support of both its investment teams and 11-person proxy-and-governance committee, which includes senior representatives from a variety of teams across the firm. Votes are steered by the firm's voting guidelines, which contain reasonable specificity with respect to ESG issues. The firm discloses its full proxy-voting record, though it doesn't consistently disclose its rationale for key votes. In 2020, AB had one of the strongest records among its peers for backing a set of key ESG resolutions. It also engaged with 534 companies on ESG issues and co-led two Climate Action 100+ engagements. While AB offers a relatively granular breakdown of its engagement outcomes and articulates its escalation strategy, AB's engagement policy could have offered a clearer link between its engagement priorities and specific expectations for engagement outcomes. Overall, however, AB's stewardship reports and policy documents offer a detailed picture of how AB pursues change via active ownership.

As of March 2021, 77% of AB's assets under management incorporated ESG (2% ESG intentional strategies, 41% ESG integrated strategies, and 34% exclusions-only). ESG integration covers all of the firm's active equity and fixed-income offerings, but its impact varies across portfolios. The investment teams consistently conduct ESG research, but portfolio managers retain discretion when weighing ESG considerations. Each team within the firm's equities division takes its own distinct approach to ESG integration, though integration is largely standardized across the firm's fixed-income group.

Alphinity Investment Management | Ross MacMillan, CA | 1 January 2022
Continues to develop and expand ESG and sustainability capability.

Alphinity Investment Management is a progressive funds-management business with an advanced commitment to ESG, sustainability, and responsible investing. It receives a Morningstar ESG Commitment Level of Advanced.

Alphinity's time-tested investment philosophy includes the belief that investable companies with valuation upside and a sustainable trajectory of earnings upgrades have a significantly higher probability of outperforming over the longer term. It applies its investment process to a universe of companies that have passed comprehensive ESG and sustainability filters to arrive at a portfolio with good investment prospects and strong social characteristics.

The company's repeatable investment process has reflected this key principle since Alphinity was founded in 2010, with ESG considerations integrated into the investment procedures as part of the firm's risk-management framework. The firm's Sustainable Share strategy includes all key ESG features including a dedicated sustainable charter (outlining strict negative and positive ESG screens) and a sustainable compliance committee (with two independent ESG experts as members). What's more, numerous ethical and sustainable aspects are implemented into the investment process for the firm's other domestic and global equity strategies. In 2020, Alphinity furthered its commitment to ESG considerations by creating a new role, ESG and Sustainability Manager, and hired Jessica Cairns, who brings more than 10 years of relevant experience, to fill it. In 2021, Alphinity further expanded the team with the hiring of an ESG and Sustainability analyst.

Ultimately, Alphinity's domestic equity investment team, global equity investment team, and ESG and Sustainability team are closely integrated. All members of the various teams have the ability to leverage the external independent ESG research database, gain insights from the portfolio managers of the Sustainable Share Fund, and seek advice from the independent members of the Sustainable Share Compliance Committee.

Positively, Alphinity actively engages with all companies in its portfolios on ESG and sustainability issues. Alphinity also votes all proxies in a manner consistent with its corporate responsibility principles and the Sustainability Share Fund's sustainable charter.

Altius | Chris Tate, CFA | 1 January 2022
Setting a high bar in the Australian sustainable bond market.

Altius Asset Management's move to become a dedicated ESG manager signals its long-standing commitment to sustainable and responsible investing. It earns a Morningstar ESG Commitment Level of Advanced.

Altius is a wholly owned subsidiary of Australian Unity. Since its founding in 2011, Altius is the in-house specialist fixed-interest team for Australian Unity, which, after converting its lone non-ESG strategy, is now a dedicated ESG manager. Although the company is not a signatory of the United Nations-backed Principles for Responsible Investment, its overall philosophy focuses on responsible investing to shape a positive future and manage risk. This boutique's sustainable offerings are backed by a six-person team whose members are all well-versed in ESG investing, with the firm now a decade old, whilst also partnering with expert industry advisors. From early 2022, Altius will work closely with Australian Unity's head of responsible investment and stewardship, a newly created role.

The firm views a company's culture and business strategy as directly impacting its risk and probability of default. Therefore, a firmwide sustainability policy ensures consistent integration of ESG factors into credit analysis. The policy sets minimum criteria by which securities qualify for inclusion in portfolios and applies negative screens on industries such as gambling and fossil fuel production. An independent Sustainability Advisory Committee, which comprises external sustainability advisors, oversees this policy. The committee considers forward-looking assessments of material ESG risk and mitigating factors to exclude debt deemed as having a low sustainability rating.

The firm has room to improve on active ownership practices. Although bondholders don't have the same company access as shareholders, Altius' engagement program isn't as formal or as active as other managers', despite engaging with some issuers across sectors as required to understand practices and convey its preferences. Similarly, disclosure and reporting are limited at present, but this will be a priority for the Australian Unity's incoming head of responsible investment, allowing investors to accurately assess the ESG characteristics of their portfolios.

Amana | David Kathman, CFA, Ph.D. | 1 August 2022

A strong sustainability culture, with room for some improvement.

Saturna Capital, advisor to the Amana and Saturna mutual funds, has sustainability in its character, though engagement is an area where it could do better. It earns a Morningstar ESG Commitment Level of Advanced.

The Amana funds, which constitute the bulk of Saturna's assets under management, have employed ethical investing principles since their inception more than 25 years ago. These funds adhere to Islamic law, which is based on principles of risk-sharing and equity (between the parties in a financial transaction) and leads to avoidance of interest and other prohibited activities. This includes prohibiting investments in industries such as gambling, alcohol, and adult entertainment. These businesses are often, though not always, excluded from environmental, social, and governance mandates as well. When Saturna adopted a formal ESG mandate for the Amana funds in 2017, it made no changes other than making the funds fossil-fuel-free, and otherwise formalizing the environmental components of the present-day strategy. The investment team is relatively small, with fewer than a dozen people; all of them do both ESG and fundamental analysis as part of the investment process, using a proprietary ESG scoring system that incorporates information from three different data sources.

As ESG standards have evolved, so has Saturna. In recent years, the firm has updated its investment process to formally incorporate such factors as gender and ethnic diversity and pay equality, as well as monitoring carbon emissions and plans to reduce such emissions. Also, Saturna has worked to make its own business more sustainable. In 2014, the firm instituted a robust Toward Zero Waste program that diverts over 80% of its waste away from landfills.

Active ownership is one area where Saturna could use some improvement. The firm does not do any direct engagement with companies, largely because it doesn't have the resources to do so, though Morningstar believes that such engagement can be an important part of a firm's commitment to sustainability and thus Saturna's progress here bears close monitoring. While there is a proxy committee that maintains proxy-voting guidelines, those guidelines are not publicly available. However, in practice, the Amana funds have usually voted in favor of key ESG resolutions, so their proxy-voting record is consistent with the firm's sustainable focus.

Amundi | Mara Dobrescu, CFA | 10 May 2021
Amundi earns a Morningstar ESG Commitment Level of Advanced.

Since announcing a key sustainability initiative in 2018, Amundi has invested in state-of-the-art environmental, social, and governance tools and data, and incorporated ESG criteria across most of its range, earning it a Morningstar ESG Commitment Level of Advanced.

In 2018, Amundi made headlines when it announced that it would apply ESG criteria to its entire range, including active and passive funds wherever technically possible by the end of 2021. The firm has so far made significant progress toward that goal. It has built a sophisticated proprietary ESG rating based on third-party data and supplemented it with its own qualitative ESG assessment for a subset of its largest holdings. Amundi has also excluded ESG worst-offenders across its entire range, and almost all of its active open-end vehicles are now expected to maintain an average ESG rating above that of their respective market benchmark. As of February 2021, 60% of the firm's mutual fund assets were classified as Article 8 or Article 9 under the SFDR regulation. That's no mean feat given Amundi's plethoric fund range, which spans the continuum of all major asset classes but also includes sectors of the market where third-party ESG data and methodologies are not always readily available, like small caps, emerging markets, or junk bonds.

Despite these advances, the firm is held back somewhat by instability in its ranks of ESG specialists. Its head of responsible investments, Stanislas Pottier, who had been named in 2018, was replaced by Elodie Laugel in mid-2020. The team of ESG analysts, engagement specialists, and ESG methodology experts also experienced significant turnover, and its 35 current members, while decently experienced, only average two years of tenure in the ESG team.

Finally, while Amundi's proxy-voting policies are well aligned with environmental and social best practices, the firm's engagement effort is somewhat less encompassing. The majority of its engagements across holdings consist of one-off interactions, and only a small subset, around 30 to 50 companies, is targeted for in-depth continuous engagement. A disclosure of voting rationales, which the firm plans to introduce later this year, would also improve the firm's standing as a leader in ESG practices.

AXA Investment Managers | Mathieu Caquineau, CFA | 1 December 2021
AXA IM has made good strides toward sustainable investing.

AXA Investment Managers has moved vigorously in recent years to incorporate environmental, social, and governance principles in its investment culture, with tangible results. The firm has considerably expanded its ESG team to oversee and implement its responsible investing policy and put in place substantial exclusion policies. While AXA IM has some scope to go further on its ESG journey, its current practices are strong enough to earn a Morningstar ESG Commitment Level of Advanced.

AXA IM has long shown an interest for sustainable investing. It has had a responsible investing policy and dedicated team since 2001 and signed the United Nations-backed Principles for Responsible Investment early, in 2007. But the firm’s ESG efforts really took off in the last three years. The ESG team has doubled in size since 2017 to reach 30 people who are evenly split between a central team and the different investment platforms. The team has stabilized in the past two years, although the departure of the head of ESG in August 2020 and a consequent change of reporting lines bears watching.

The firm also multiplied the number of external ESG data sources in recent years to feed its proprietary ESG quantitative scoring that now covers 8,500 listed companies. This scoring is used by fund managers across the firm to inform their investment decisions. The exclusion policy has become more stringent and is applied across a large part of the fund range. For two thirds of the firm’s mutual fund assets, companies involved in coal, tobacco, palm oil, and food-related derivatives and those violating the United Nations Global Compact principles are systematically excluded.

AXA IM is ahead of the competition with respect to reporting and active ownership practices. ESG metrics are disclosed on a per-fund basis for all funds. There is also a good level of transparency on proxy voting. The firm has detailed ESG proxy-voting guidelines and walks the talk with strong support of ESG shareholder resolutions. Engagement efforts with company holdings have been ramped up, with a focus on environmental issues, but more could be done on that front, given the scope of the firm.

BNP Paribas Asset Management | Morningstar Manager Research | 1 November 2022

Intensifying its commitment to sustainable investing.

BNP Paribas Asset Management has further evolved its already strong environmental, social, and governance credentials and continued to add resources, but it has encountered some challenges in rolling out the ESG integration program, and disclosure efforts trail industry best practices. It maintains an ESG Commitment Level of Advanced.

Sustainable investing consistently features at the core of BNP Paribas AM's strategic plan, echoing management's ambition to become a sustainability leader. The executive team holds itself accountable for the successful implementation of the firm's sustainability strategy by linking aspects of compensation to key performance indicators.

With strong backing from management, BNP Paribas AM has ramped up its efforts in several key areas. The firm has deployed innovative quantitative tools to assess portfolios' alignment to sustainability frameworks such as the EU Taxonomy and the U.N. Sustainable Development Goals, as well as exposure to key climate and biodiversity metrics (such as scope 3 emissions).

Management has also heavily invested in the firm's sustainability center. The central ESG team now numbers 28 experienced investment professionals. However, turnover within the team has been higher compared with peers, which is concerning; over approximately the past year, eight team members left. That said, the firm has taken steps to improve retention and more than backfilled those positions, hiring 13 analysts during the period.

The group has also enhanced its policies and frameworks regarding internal fund classification, exclusion of controversial businesses, and systematic ESG scoring capabilities. Still, its sustainability ambitions have hit some bumps in the road. In order to adapt to a fast-evolving regulatory framework, firmwide ESG integration efforts have decelerated in the last 12 months, and some of the group's private and real assets funds do not yet consider ESG factors.

Regarding climate action, BNP Paribas AM signed up to the Net Zero Asset Managers Initiative in 2021 but has yet to disclose its net-zero road map and decarbonization targets. NZAMI requires signatories to publish these within one year of joining.

BNP Paribas AM's active ownership policy is wide-ranging, thoughtful, and well-coordinated. Its internal proxy-voting system is a key strength, which allows it to seamlessly cast and report on its votes at shareholder meetings in line with its ESG principles. BNP Paribas AM supported all of the key ESG shareholder resolutions it voted on in the 2022 proxy year. The group boasts a detailed engagement policy, provides transparent reporting to investors, and is a vocal proponent of sustainable investing through policy advocacy and engagement with regulators.

Candriam | Morningstar Manager Research | 1 November 2022
Worthwhile efforts that could be further improved.

Candriam continues to build upon its decades-long legacy of sustainable investing, notably by dialing up its focus on climate in engagement activities. However, more remains to be done to integrate ESG criteria throughout the investment lineup, and recent additions to the environmental, social, and governance team have yet to reach their stride. The firm retains a Morningstar ESG Commitment Level of Advanced.

Candriam launched its first socially responsible strategies in the mid-1990s and was a founding signatory of the United Nations-supported Principles for Responsible Investment in April 2006. In 2017, the firm ramped up these initial efforts with an ambitious initiative to incorporate ESG criteria across all strategies. As of April 2022, nearly 80% of the firm's assets were in funds classified as either Article 8 or Article 9 under the EU Sustainable Finance Disclosure Regulation. Such funds either promote ESG characteristics or target a sustainable-investment objective, respectively. For the rest of its offerings, which include esoteric asset classes such as convertible bonds, alternatives, and private assets, Candriam continues to face challenges in integrating ESG considerations.

Candriam has stepped up efforts to address climate risk since 2017, which coincides with the firm joining Climate Action 100+. Candriam's 2022 proxy-voting policy reflects its heightened focus on climate with the addition of clearer and more specific climate-related priorities and recommendations for investee companies. For instance, in addition to expecting a credible Paris Agreement-aligned climate strategy, Candriam also expects companies to align executive compensation with measurable and transparent climate change objectives. Candriam is applying greater scrutiny to "Say on Climate" votes, too. Based on Morningstar data, the firm voted against 83% of company directors with insufficient climate plans in 2022 and supported all key ESG resolutions over the past three years.

To support its increased focus on sustainability, Candriam has expanded its ESG team. Roughly one fourth of the team joined within the past year, bringing the total headcount close to 20 as of October 2022. The added resources are a plus, but the new joiners will take time to settle into their roles. The central ESG team, led by Wim Van Hyfte since 2016, oversees all of the firm's ESG activities, including maintaining the ESG scoring framework and serving as a center of expertise to advise investment teams on sustainability-related topics. The sheer scope of the team's responsibilities suggests it could benefit from added personnel to bolster the firm's direct engagement agenda.

Generation Investment Management | Shamir Popat | 1 June 2022
Generation has proved its advanced capabilities in ESG integration and sustainable investing since 2004.

Generation Investment Management has advanced capabilities in sustainable and ESG investing. The core mission of the firm is to ensure that sustainable investing drives the transformative change required for a net zero, prosperous, equitable, healthy, and safe society. This mission is achieved through the people, investment process, active ownership, and the firm’s initiatives globally.

The founding partners share the belief that sustainable investing is a key element in ensuring long-term returns. The investment process has sustainability at its heart, with the idea-generation process seeking opportunities derived from the firm’s proprietary research into sustainability trends. Key insights, data, and external expert opinions are leveraged throughout the process in ensuring the ideas are at the forefront of sustainability. This leads to the main focus list of almost 150 companies that the analysts and portfolio managers are responsible for from a research, engagement, proxy-voting, maintenance, and portfolio construction perspective.

Generation’s active ownership capabilities do not take the traditionalist activist stance that is gaining traction globally. Instead, the firm already has a positive view on its companies at the time of inclusion on the focus list, thereby creating a platform for more-constructive engagements. Often, the companies seek Generation’s perspective on how to adapt their business models to enhance sustainability and profitability. The active ownership reporting in terms of disclosure and regularity does, however, leave room for improvement compared with leading peers.

The firm has a well-established reputation as a pioneer of sustainable investing through its initiatives globally. Its recent highlights include being a steering member of the Glasgow Financial Alliance for Net Zero and most recently launching an initiative called Just Climate. It aims to provide finance to the asset-heavy parts of the climate transition that are viewed as capital intensive, unproven at scale, or in geographies too challenging for investors to consider.

It has provided a strong example of executing a belief that sustainable investing leads to long-term returns.

HSBC Global Asset Management | Mara Dobrescu, CFA | 10 May 2021
Under the direction of its new leadership, HSBC GAM has made strides in environmental, social, and governance integration and has consolidated an already impressive active ownership effort.

While HSBC GAM's ESG integration effort is still relatively recent, the firm has already achieved more-tangible objectives than several of its industry peers. The firm's exemplary proxy voting and engagement activities also support its Morningstar ESG Commitment Level of Advanced.

The firm has been a signatory to the United Nations-backed Principles for Responsible Investment since 2006, but its ESG efforts have mostly taken off over the past three years, as CEO Nicolas Moreau and Joanna Munro have invested heavily in a dedicated and experienced ESG team, formally tied portfolio managers' bonuses to ESG goals, and formalized an ambitious ESG product development pipeline (for both active and passive offerings). While some other firms have hired aggressively but then struggled to retain talent, HSBC GAM's 24 ESG analysts and engagement specialists have been stable, with only one departure over the past three years.

Meanwhile, the firm has also audited its traditional fund range (which composed 98% of its assets as of December 2020) to verify that the incorporation of ESG risks and opportunities is appropriately and extensively documented in stock and credit write-ups. There are, however, no firmwide company or sector exclusions, nor a minimum ESG rating standard applied across the board, as investment teams retain ultimate discretion on the ESG integration framework they deem most relevant to their approach.

The firm's active ownership efforts are topnotch, with quasi-systematic votes in favor of ESG-related resolutions and detailed engagement road maps that hold companies accountable on their environmental and social practices. HSBC GAM, a Climate Action 100+ co-founder, has also co-filed several prominent shareholder resolutions and has sponsored significant policy initiatives addressing climate change. The firm, however, does not currently disclose the full rationale for its votes on its website. Another area of improvement is its disclosure of portfolio-level ESG metrics which, though comprehensive, are currently only available for the firm's range of intentional ESG funds.

Jupiter | Evangelia Gkeka | 10 May 2021
Jupiter earns a Morningstar ESG Commitment Level of Advanced.

Jupiter is on a good trajectory with its environmental, social, and governance incorporation, and some aspects have been long embedded into the firm's culture. Its active company engagement policy and transparency are key strengths. However, progress in further developing its proprietary ESG system and reporting on fund-level ESG metrics would be welcome. It earns a Morningstar ESG Commitment Level of Advanced.

Jupiter has been involved in ESG incorporation for several years. It has been a signatory of the United Nations-backed Principles for Responsible Investment since 2008 and a member of several stewardship, engagement, and climate initiatives, including its recent commitment to net-zero emissions by 2050 and the U.N. Global Compact principles. The firm has a team of nine experienced ESG-dedicated professionals, who work closely with fund managers on ESG integration and engagement. The team is expected to grow further in 2021.

Jupiter has an active engagement policy with a well-defined escalation process. Engagement is led by fund managers who work closely with the ESG team on integration, engagement, and proxy voting. The firm is serious about its portfolio managers incorporating ESG in their decisions as ESG integration and engagement activity are part of their annual appraisals. The group has been actively supporting ESG shareholder resolutions and provides monthly transparency on its global voting records.

Firmwide exclusions are limited to controversial weapons. Companies that might typically be excluded by other houses can be deemed investable, as long as these companies have a clear sustainability agenda. Fund managers collaborate with them to improve their ESG trajectory.

Jupiter's main ESG IT tool is called ESG Hub, an online proprietary database the firm started developing a couple of years ago. It connects third-party ESG data to portfolios and provides information on securities, portfolios, and engagement activities. It allows fund managers to access ESG risk data across portfolios and individual securities efficiently and is also used by Jupiter's senior management to oversee the ESG activities of fund managers. The scope of this hub is still evolving, and further development of ESG-related reporting across all funds is still a work in progress.

LGIM | Kenneth Lamont | 10 May 2021

LGIM's strong sustainability credentials are built around a market-leading stewardship team.

LGIM has positioned itself as a sustainability champion, particularly in the area of investment stewardship, warranting a Morningstar ESG Commitment Level of Advanced.

ESG is integrated into the investment process where possible, but the large portion of firm assets managed passively limits the firmwide impact of these measures. For example, while the company operates a companywide sustainable exclusions list, this is not relevant for most passive funds, which are designed to track traditional benchmarks and are therefore exempt from these restrictions.

This puts the focus on the value of active ownership, and this is an area where LGIM is ahead of peers. LGIM has long made voting and engagement core components of its investment approach and continues to set best practice standards in this area. The deeply experienced 16-strong stewardship team operates a structured, centralized process for engaging with portfolio companies and voting. The firm is fully transparent on its engagement practices and publishes a regular leaders and laggards list of portfolio companies.

LGIM has added the personnel and infrastructure needed to ensure that ESG is integrated throughout the firm. In addition to the stewardship team, experienced ESG experts are embedded across the organization, including positions at the highest levels. The firm has recently made a public net-zero emissions commitment and announced that executive pay will be linked to climate targets.

LGIM draws on a wide range of external data sources to calculate its proprietary ESG scores. These scores and other qualitative sustainable content are disseminated throughout the firm via the Active ESG View tool, which was developed in-house. Another area where LGIM scores well is in disclosure. The firm regularly posts educational and thought-leadership material, provides detailed quarterly updates on engagements, and is transparent on voting records, although it doesn't publicly disclose ESG metrics on all of its funds yet.

Nuveen/TIAA | Mahi Roy | 1 December 2022

Responsible investing remains a key focus for Nuveen.

Nuveen continues to evolve its already strong responsible investing credentials by achieving ESG integration across most asset classes, expanding the Responsible Investing team, and improving transparency, but room for improvement remains. The firm maintains a Morningstar ESG Commitment Level of Advanced.

The firm draws on a legacy of mission-driven and responsible investing (RI) through parent company TIAA, but Amy O'Brien's promotion to head of RI for TIAA/Nuveen and the subsequent buildout of a dedicated RI team following TIAA's acquisition of Nuveen in 2014 kickstarted the effort to embed RI into every fragment of the firm. As of October 2022, nearly 100% of the firm's assets systematically consider ESG risks, whether part of a branded ESG mandate or not. This derives from the firm's conviction that ESG risks are financially material. Beyond ESG integration, Nuveen is rolling out portfolio-level goals for reducing carbon emissions. In May 2021, TIAA's General Account announced its aim to be net zero by 2050. Nuveen's real estate business went further by committing to reach net zero by 2040. In June 2022, the firm launched Nuveen Global Net Zero Transition ETF NTZG, which targets net zero carbon emissions by 2050 through a mix of engaging with portfolio companies to reduce their operational footprints and investing in emergent technologies to support climate change mitigation.

Nuveen's ability to retain and increase talent during a competitive job market gives them an edge over peers. In 2022, six professionals joined to support the firm's ESG integration efforts, and four junior members joined to bolster the firm's active ownership practices. Industry veterans such as Amy O'Brien and Peter Reali, each of whom counts more than 15 years' experience in ESG matters, steer junior talent in overseeing a unified strategy for responsible investing across Nuveen. In addition to its deep bench of specialists, the firm has refined its in-house database over the past four years. The tool centralizes high quality ESG data, takeaways from engagement activities, and proprietary research insights for ready access by investment teams.

Recent growth in the stewardship team strengthened Nuveen's transparency and engagement initiatives. In 2022, the firm started publicly disclosing its rationales for all proxy votes at S&P500 companies and increased the number of engagements with portfolio companies, which provided the firm with additional insights to enhance investment decisions and expand its research around engagement efforts. In recent years, Nuveen supported roughly two-thirds of key ESG shareholder resolutions, but the policy driving this strategy has room to improve. The proxy voting guidelines lack specificity on environmental and social issues. Explicitly detailing desired outcomes on climate change and clearly outlining the firm's escalation strategy for companies that lag on environmental and social priorities would bring the firm closer to best practice.

Royal London Asset Management | Evangelia Gkeka | 1 July 2022
The firm's recent ESG team growth and completion of its internal ESG database drive an upgrade.

Royal London Asset Management has a strong presence in ESG-related initiatives, helped by a key investment unit that boasts a heritage in this space. The growth in Royal London's in-house team of ESG experts and completion of the internal ESG database are further positives that support an upgrade of the firm's Morningstar ESG Commitment Level to Advanced from Basic.

The firm boasts an experienced Sustainable Equity Investment team that has spurred the firm's progress on ESG initiatives by means of thought leadership. The origins of the team came via the acquisition of the Co-operative Group in July 2013. This is one of the UK's longest-tenured teams, whose process has been in place since 2003. In 2019, RLAM's Responsible Investment team was carved out of this sustainable equity team to focus on ESG research across the wider business.

Over the years, the firm has expanded these robust in-house teams dedicated to responsible investment and ESG analysis. The Responsible Investment team has nearly doubled to 17 members during the past year. This includes a mixture of backgrounds and experience levels, and RLAM's RI academy serves to develop junior talent internally, which boosts retention and team cohesion.

At the end of 2021, RLAM completed the rollout of its internal ESG database, which combines third-party data with internal research and insights. The tool provides proprietary ESG scores to all investment staff, as well as details on engagement for all securities (previously, these were only available for holdings within the sustainable fund range). ESG integration across strategies is monitored during quarterly oversight meetings, and investment professionals regularly collaborate with ESG specialists to discuss portfolio holdings and ESG risks.

RLAM has a strong handle on governance and stewardship issues and has recently expanded the scope of its proxy-voting initiative to include all equity holdings. The firm publishes a summary of voting activity on its website, including reasons for voting against a proposal or abstaining. The engagement appears well targeted and impactful, although extra resources here would provide greater capacity to tackle issues. Where action has been taken, a wide range of examples are publicly declared, including details on the engagement itself and how it has impacted investment decisions.

One area of weakness is transparency and reporting on fund-level ESG metrics for nonsustainable offerings. Currently, these are neither published nor reported to investors. Fund-level disclosure of ESG metrics on an absolute basis or relative to peers or a benchmark would provide greater clarity for potential investors.

Schroders | Jonathan Miller | 1 May 2022

Not resting on its laurels.

Schroders has continued to add headcount and further evolve its already strong ESG credentials, helping the firm maintain a Morningstar ESG Commitment Level of Advanced.

The group has invested in relevant tools and resources to deepen ESG integration. These resources were of a high standard to begin with and continue to develop, helping the firm maintain an edge above newer entrants and competitors in the ESG space. On the investment desk, a variety of data sources have been thoughtfully amalgamated into a proprietary platform that all fund managers can access from their desktops. This ranges from social and environmental issues to top-line country analysis, which helps provide insight into ESG concerns.

Each investment team has gone through an internal ESG accreditation process, and the team's commitment to this undertaking is linked to individuals' bonuses. The accreditation aims to demonstrate how ESG integration is implemented at various stages of the investment process and has developed alongside the burgeoning sustainability team. This team has continued to grow in recent years and was 32-strong at the end of February 2022. It acts as a focal point for ESG analysis, sustainable thematic research, proxy voting and engagement, and the firm's internal corporate governance initiatives. In addition to junior hires to the bench, the firm has also successfully recruited managers and executives from competitor firms. The resources and levels of experience are therefore of a decent standing for a firm of this size.

When it comes to proxy voting, Schroders has structured policies in place and is transparent on reasons for votes against proposals. By comparison, some peers still only disclose rationales for votes against management or disclose no voting rationales whatsoever. On the ESG engagement side, the firm's activities and outcomes are monitored and tracked. However, these measures are currently broad in nature, so a deeper understanding of more-tangible results and insights would be of benefit.

Schroders has committed to transitioning all investment portfolios to Net Zero by 2050. The firm's goals and pathway to reach this have been validated by the Science Based Targets initiative, a leading source of third-party underwriting on such matters. On the acquisition side, Schroders has recently made deals that should extend its sustainable capabilities: Greencoat Capital (2021, specialist manager dedicated to the renewable energy infrastructure sector), Natural Capital Research (2021, data-led science-based organization that specializes in measuring biodiversity and land quality), and Blue Orchard (2019, specialist in impact emerging-markets debt and microfinance).

UBS Asset Management | Natalia Wolfstetter | 1 February 2022
UBS Asset Management has boosted its ESG capabilities in recent years.

More work remains to be done, but efforts to improve ESG risk monitoring, transparency, and active ownership justify an upgrade of the Morningstar ESG Commitment Level to Advanced from Basic.

Over the past couple of years, UBS AM has embraced ESG more thoroughly and systematically, following its parent company’s commitment to "Mainstream ESG across UBS Group."

There is growing ESG incorporation—in research, engagement, proxy voting, and screening—across most of the firm's lineup, though it varies by product category. The firm operates a proprietary ESG data and research platform that feeds on a broad range of external data and includes in-house assessments. Research analysts are expected to fully integrate ESG considerations in issuer analysis as well as in a forward-looking ESG risk evaluation.

In 2021, the Stewardship Committee formalized its monitoring of issuers with the highest ESG risk, and it can remove them from all actively managed strategies if engagement is not deemed successful. This centralized process provides better visibility and more consistent oversight of issuers with severe ESG risk, and it builds on an earlier climate engagement program.

Since 2021, the firm excludes from its portfolios companies involved with thermal coal. The firm’s designated “ESG-focused” funds (11% of assets as of June 2021) apply additional exclusions related to controversial activities, similar to its exclusions-based strategies (24%), but these funds also need to score better on ESG metrics than their respective benchmarks. Meanwhile, in the firm’s “ESG-integrated” funds (42%) managers retain discretion to invest in companies flagged for high ESG risk if they see potential for engagement.

The firm’s central ESG squad helps investment teams integrate ESG into research and portfolio decisions and provides additional analysis on contentious issuers. The experienced team underwent a reorganization in 2021, and the team head, Christopher Greenwald, left the firm at the end of 2021. The firm appointed an experienced successor, and in 2022 it plans to expand the team, which seems somewhat stretched.

The firm further expanded its active ownership program and reporting, focusing on climate-related engagements to fulfil its commitment to the Net Zero Asset Managers initiative. In voting activities, UBS AM leverages the force of its massive passive lineup, which accounts for 43% of firm assets. The firm has generally been supportive of ESG-related shareholder proposals, and transparency has been enhanced through public voting rationales. The firm expects to roll out ESG factsheets for ESG-focused funds in the near future, but these metrics should be expanded to its entire product range.

Unigestion | Mathieu Caquineau | 1 August 2022
ESG investing is a core pillar of Unigestion's identity.

Unigestion draws on its strong quantitative roots to entrench environmental, social, and governance factors in its investment process, design industry-leading fund reports, and develop a credible active ownership program. Still, dedicated resources could be bolstered to fully back the firm's ESG ambitions. Unigestion earns a Morningstar ESG Commitment Level of Advanced.

Although Unigestion signed the United Nations-backed Principles for Responsible Investment in 2013, its ESG journey really kicked off in 2016 with the integration of ESG factors in the firm's quantitative process. Since then, Unigestion has built, refined, and rolled out its proprietary ESG rating across all funds as a key driver for stock selection and portfolio construction. All equity funds must maintain a better ESG profile than their benchmarks and reduce their carbon intensity by at least 20%. In practice, the funds go way beyond that objective, with reduction targets ranging from 40% to 60%. Unigestion puts a particular emphasis on environmental issues and climate change, areas where the firm can best leverage its historical quantitative expertise and where it sees the biggest long-term risks and opportunities. One of the outcomes of this strategy was the launch of the firm's first climate-transition fund in February 2022. Among other milestones achieved in recent years, the firm has developed world-class ESG reporting at the fund level.

Climate change is also a central focus of Unigestion's robust active ownership program. The firm partners with ISS to carry out its proxy voting, and it leverages detailed voting guidelines for climate issues. Alongside voting, the firm has developed a solid engagement program with clear expectations, and it closely tracks how a company responds to its demands. Finally, Unigestion has improved the sustainability of its own business, highlighting its rising role as a promoter and advocate of sustainable investing.

One area for improvement is resources. The firm's four dedicated ESG experts are embedded in the investment teams, and while all investment professionals are involved in ESG research, the specialist capacity remains thin. Similarly, the stewardship team of three is small—given the total number of companies held across the funds—and less experienced than those at other firms. Unigestion's quantitative capability helps to support its various ESG endeavors, but more resources will likely be needed to sustain the firm's growing ambitions.

Basic

Abrdn | Jonathan Miller | 10 May 2021
Abrdn earns a Morningstar ESG Commitment Level of Basic.

Standard Life Aberdeen was formed as a result of the merger between Standard Life and Aberdeen Asset Management that was completed in August 2017. With environmental, social, and governance integration on the table since the merger's early days, the firm has been on a respectable journey, resulting in a Morningstar ESG Commitment Level of Basic.

When it came to laying down the new entity's ESG framework, what was already in play from each firm was considered. Most notably, Aberdeen had a long heritage for high governance standards stemming from its equity franchises in emerging markets and Asia. At the same time, when it came to honing the investment process across asset classes, ESG was included in research templates as a lens through which any material risk should be taken into account. An ESG score is assigned based on an in-house matrix and backed by a wide set of external data. This helps guide fundamental analysis as well as highlight historic controversies.

The firm's ESG efforts are well supported by a centralized 20-strong ESG team. While there are a handful of recent junior hires, the most senior members each have more than 15 years' experience in their respective fields, while the remainder have over five years working in this sphere. Furthermore, ESG investment analysts are embedded in asset classes and across most investment teams. That helps to share knowledge and keep on top of developments. Engagement sits in the hands of the portfolio managers, who, along with the analysts, are seen as knowing a company best. The ESG and investment stewardship teams are on-hand to provide guidance and equip portfolio managers with information, skills, and training. They can also join engagement meetings, but that's not a prerequisite. In the event of voting against a resolution at a shareholder meeting, the reason is laid out on the website.

The trials and tribulations of a merger are never simple, yet the ESG side is in reasonable shape. That said, the firm, which is the largest active asset manager in the United Kingdom, has yet to drive any shareholder resolutions. Additionally, compensation for fund managers doesn't have an explicit element linked to how they approach ESG factors. Despite the firm's view that ESG issues are considered holistically within the investment process, a more direct link would help provide a clearer layer of oversight.

Acadian | Erica Hall | 1 November 2022
Structured approach to ESG incorporation, but transparency needs improvement.

As a quantitative investment manager, Acadian applies environmental, social, and governance filters in a structured manner; however, transparency in both reporting corporate engagement activities and the thoroughness of the activities themselves could be improved. Therefore, we assign it a Morningstar ESG Commitment Level of Basic.

All strategies incorporate ESG signals at the stock-selection level; however, the dedicated sustainable strategies favor companies that rate highly from a social and governance perspective. Sustainable strategies have a thematic target relating to the transition to the low carbon economy, which means these portfolios are free of fossil fuel exposures and are low carbon emitters.

Further, Acadian looks to continue to evolve its ESG process. While governance remains the most impactful element, Acadian has broadened its ESG signals over time, altering their influence by industry, such as weighing environmental issues (for example, carbon emissions) more heavily when assessing utilities, while social concerns (for example, workforce injuries) are more impactful for energy/materials. Having quant models as the foundation for investment decisions means ESG criteria are applied at scale across its portfolios.

By the same token, Acadian's quantitative roots limit the overall scope of its ESG efforts. Engagement efforts are centered around three key themes: energy transition, employee well-being, and management long-termisim prioritized based on materiality. When it comes to proxy voting, Acadian's lack of transparency is disappointing as its proxy-voting records are not readily publicly available. Public disclosure about ESG research is modest and could be improved.

The sizable investment team contributes to ESG research and idea generation, but dedicated ESG resources have been underdone in the past. However, there has been recent improvement in ESG resourcing, which started with Andy Moniz's appointment as the director of responsible investing and continued with two ESG analysts joining the team, Devin Nial and Jerry Wu. They have been undertaking deeper analysis on corporate greenwashing, climate analytics, and company engagements. Matt Picone remains as a dedicated ESG resource also.

Overall, we view Acadian's ESG commitment as a light touch. The firm's efforts to reduce exposure to some controversial products and to tilt its sustainable portfolios to better carbon outcomes are positive yet limited. Nevertheless, we acknowledge Acadian's efforts to systematically integrate ESG practices throughout the firm as respectable.

Aegon Asset Management | Morningstar Manager Research | 1 December 2021
Aegon Asset Management UK benefits from a parent that is ahead on ESG.

Aegon Asset Management UK was an early provider of an environmental, social, and governance-intentional product via its ethical equity fund, launched in 1989, but a firmwide focus on ESG and the resources to back that up have only developed at pace with the wider industry. Therefore, the firm receives a Morningstar ESG Commitment Level of Basic.

Benefiting from its acquisition by Aegon NV, the level of resources and expertise available has increased. The UK-based central ESG team numbered only three before the acquisition (it has now grown to five), but after the acquisition it can also now lean on the Netherlands-based team, which totals 11. A total of 16 ESG specialists represents a good size, but more time may be needed before the UK-based investment teams make the most effective use of them. Turnover in these teams has been relatively low, but notably there was the loss of the UK outfit's head of ESG Ryan Smith in 2020.

There is a framework in place for analysing ESG for both equities and fixed income. For equities, it involves looking at how significant an ESG factor is for a company, the level of risk, and the direction of change. On the fixed-income side, there is a five-point scale that covers credits and is used to determine the materiality of ESG factors and their potential impact on a credit rating. However, these were only more recently developed (one to three years) into a proper framework.

The active ownership approach could be improved by adopting a more structured and purposeful voting policy that incorporates greater detail on ESG considerations. Similarly, more information on the firm's engagement efforts would be welcome. It does have an engagement framework that is based on a (four-part) milestone approach. In 2020, the firm stated that approximately a third of all engagement efforts resulted in progress being made by the company engaged or the issue being resolved. This is commendable, but it should also be noted that almost 40% of engagements had reached only the "contact acknowledged" stage. Aegon AM UK's voting record is stronger, however. The teams vote on all equities in which they own more than 0.1% of the company. And full voting records, including reasons for votes against management, are available. This is important given that there has been an increasing number of votes against management in recent years. Being part of the wider Aegon NV group means that where there is overlap in holdings between the UK and non-UK arms, active ownership benefits from scale, as engagement has at least some level of central coordination.

Allianz Global Investors | Natalia Wolfstetter | 10 May 2021
Allianz Global Investors earns a Morningstar ESG Commitment Level of Basic.

Allianz Global Investors' environmental, social, and governance efforts have picked up speed, but it will take more time to fully embed ESG factors. It earns a Morningstar ESG Commitment Level of Basic.

The firm was among the earliest signatories to the United Nations-backed Principles for Responsible Investment, but it was not until 2017 that ESG efforts were really ramped up with the build-out of a central ESG team, which now counts 26 experienced professionals, and the broad dissemination of ESG data and research to all investment teams through the firm's global research platform.

The firm's share of assets that incorporate ESG considerations has grown in recent years, though it was still quite limited at the end of 2020, accounting for 27% (ESG-integrated) and 8.5% (ESG-focused) of its EUR 582 billion in assets under management. Through product conversions, ESG-focused fund assets have more than doubled to 19% as of March 2021.

While ESG issues have started playing a bigger role in analysts' daily workflow and portfolio managers' investment decisions, outside of ESG-focused strategies, they retain discretion to invest in ESG laggards, and the firm is still building out its monitoring process, with an ESG risk reporting system implemented only recently.

The firm is in the process of updating its proxy-voting guidelines, which could be more detailed in relation to environmental and social issues. Nonetheless, AllianzGI has one of the highest proportions of votes in favor of ESG-related shareholder proposals among its peers. The firm publishes voting decisions, including rationales for key resolutions, on its website, but it does not publicly disclose fund-level ESG metrics.

Regarding engagement, the firm's approach is still evolving when it comes to defining specific targets, milestones, and timelines, against which engagement progress can be measured. It is also looking to enhance its engagement reporting, which will be structured around three newly defined core topics: climate, planetary boundaries, and inclusive capitalism.

Allspring | R.J. D'Ancona | 1 September 2021
Allspring's ESG investing effort shows commitment but is still in its early stages.

Allspring has been making progress on its environmental, social, and governance investing effort in recent years, but cultural and practical adoption across the firm's disparate investment teams is still in the early stages. The firm earns a Morningstar ESG Commitment Level of Basic.

Allspring's nine dedicated ESG personnel are a veteran bunch, averaging more than eight years' experience in the space, which is significant for this relatively nascent segment of the broader investment industry. Nonetheless, nine members is a modest group considering they lead ESG-integration efforts for the firm's fragmented 29 investment teams.

Although Allspring's core ESG crew is small relative to many peers, it has collaborated with the firm's various investment teams on some noteworthy ESG-related projects. For example, in July 2020, the firm launched a proprietary ESG risk assessment score, ESGiQ. The metric couples quantitative distillation of third-party data with a fundamental assessment of material ESG risks to produce a final score reflecting a company's exposure to ESG risk. While the framework is robust, its adoption by investment teams is mixed. Investment-grade and high-yield fixed-income groups have incorporated it into their processes, but equity team adoption is less advanced.

On the engagement front, Allspring's stewardship practices are adequate, but its participation in public advocacy groups does not stand out. The firm holds a quarterly stewardship and engagement forum that aims to foster collaboration among its investment teams and the dedicated ESG squad, as the combined group prioritizes portfolio companies for engagement, as well as key issues on which to engage. The firm became a United Nations-supported Principles for Responsible Investment signatory in 2015 and a member of the Climate Action 100+ initiative, which is common for asset managers seeking to align with ESG principles.

Finally, the pending GTCR and Reverence Capital acquisition of Allspring, which will come with a name change to Allspring Global Investment at the projected close of 2021's second half, creates some uncertainty around the firm's future ESG efforts.

AMP Capital | Morningstar Manager Research 17 November 2020
Integration of ESG across the broader firm is still a work in progress.

While there are multiple factors, such as a dedicated ESG team and reasonable disclosure and reporting, that confirm AMP Capital's commitment to ESG, the integration of ESG across the wider group and investment culture is lagging behind its peers, warranting a Morningstar ESG Commitment Level of Basic.

While AMP Capital was one of the earliest movers to become signatories to United Nations-supported Principles for Responsible Investment, the firm is slower relative to peers in embedding ESG philosophy. ESG intentional funds make up only a small fraction (approximately 1%) of AMP Capital's total funds under management, evidencing their relatively muted focus. AMP Capital applies firmwide exclusions by eliminating the usual suspects such as tobacco/e-cigarettes, cluster munitions, landmines, and chemical and biological weapons. The shop utilizes multiple third-party ESG data providers for its analysis and undertakes proprietary fundamental ESG analysis on the ASX200 and additional small-cap stocks. Considering its larger scale, more-tangible efforts here are preferred.

However, in recent years, the firm has shown signs of prioritizing ESG by building out a dedicated team of specialists and providing more ESG research insights for investors. While the larger size of the ESG team is positive, the departures of the two most recent senior staff is a big loss. Seasoned ESG experts are in high demand and can be challenging to find in the Australian market, so the relevant replacements bear watching.

AMP Capital has a strong belief in engagement with companies, especially if a shift in a company's approach to ESG issues may improve business performance. While the firm publicly reports its proxy-voting outcomes, it could provide more insight into key voting decisions in its disclosures. Positively, the firm provides reasonable reporting and research insights on various ESG matters.

Ausbil Investment Management | Ross MacMillan, CA | 1 January 2022
ESG, sustainability, and responsible investing efforts continue to grow at this firm.

Ausbil Investment Management continues to intensify its ESG, sustainability, and responsible investing efforts across the entire range of its investment products. When considering Ausbil's approach against global best practice, Ausbil receives a Morningstar ESG Commitment Level of Basic.

Since Ausbil's establishment in 1997, the firm's investment philosophy and corporate goals have been formulated to provide a disciplined investment process that is active, while incorporating qualitative analysis, quantitative inputs, and risk awareness, inclusive of ESG issues. Ausbil signed the United Nations-backed Principles for Responsible Investment in 2016. However, the firm has long adhered to these concepts as sound practice when analysing and assessing companies, particularly in terms of good corporate governance. ESG and sustainable investment development and integration at Ausbil is built around the ESG research team, which comprises the highly experienced Mans Carlsson (head of ESG research) and two ESG analysts. Carlsson effectively drives the firm's ESG philosophy, and the team assigns proprietary ESG ratings to the investable universe of Australian stocks.

Ausbil's ESG team has significantly boosted the firm's ESG credentials and pushed further with implementing sustainability features into all investment products. Ausbil remains an active and engaged shareholder, with well-defined views on various topics from board quality to climate change and modern slavery. However, transparency remains an issue, relative to global best practices, with Ausbil not publicly disclosing voting rationales or breaking down strategy-level voting statistics; it is currently reviewing its approach. In addition, ESG disclosure, statistics, and metrics could also improve at the strategy level. Overall, Ausbil's strategies have numerous positive ESG and sustainability attributes, and the firm is clearly working toward comprehensive integration across all domestic and global strategies.

Baillie Gifford | Danile Haydon | 1 February 2022
A long way through its ESG journey.

Baillie Gifford has a thoughtful approach to ESG, but team integration is ongoing and fund disclosure leaves room for improvement. It earns a Morningstar ESG Commitment Level of Basic.

Most of the systems and practices are already well-established. Indeed, the nuanced approach to sustainability and how it feeds into investment decisions is appealing. A sensible plan for 2022 will help to remedy some areas, including improvements to fund disclosure and the completion of ongoing ESG team integration. Overall, lots of thought, effort, and resources are being dedicated to ESG research, and the erudite approach marries well with the firm's history of long-term investing, intensive due diligence, and close company contact.

Baillie Gifford first launched a dedicated ESG fund in 2011. Prior to this, as long-term investors, governance played a prominent role. Over time, the approach has evolved and formalized, accompanied by considerable growth in the firm's ESG resources: The growing Sustainability and Governance team now counts 32 specialists, with substantial relevant experience. The firm uses a wide array of external data and has many academic linkages. ESG work is propagated via an integrated research platform and through educational sessions.

The group is at the tail-end of its transition toward a more integrated approach where ESG analysts will sit on investment desks, rather than the current centralized ESG resource structure. They have instituted four ESG research hubs, each specializing in an area deemed of high interest: data ethics, human rights, corporate governance, and climate change, with the latter currently the most evolved. A prospective fifth hub will focus on ESG data. As it stands, the ESG team is responsible for highlighting ESG risks and opportunities, and it does the bulk of portfolio company monitoring and engagements.

Proxy voting is centralized, with long-term shareholder value the guiding principle, rather than a strict ESG focus, though the two are interlinked. Baillie Gifford has a clearly articulated engagement strategy but rarely proposes shareholder resolutions or participates in broad collaborative engagements alongside peers. Many companies that score poorly on ESG metrics have already been screened out because of other investment criteria, so there is typically less need to agitate for major change.

Strategy-level disclosure is reasonably good but could be better, and the firm plans to introduce ESG metrics on all fund factsheets in 2022. ESG-focused strategies already have plentiful ESG data disclosure and highly detailed stewardship reports.

Barings | Jonathan Miller | 2 August 2021
Solid ESG credentials in the investment process.

Environmental, social, and governance concerns have been embedded into the investment process at Barings for years, but visibility on aspects surrounding engagements is currently light. The firm achieves a Morningstar ESG Commitment Level of Basic.

The equities division formally implemented ESG in 2016, introducing it as an aspect that affects the cost of capital in its equity valuations. The fixed-income side started using ESG inputs a couple of years prior, where a credit is deemed as being more secure if it has low risk on this side. A structured scoring system in that asset class then came into play in 2019, helping to create a more standardized way of assessing ESG across equities and bonds, plus information can be shared.

The ESG space is in effect owned by analysts and fund managers in their valuation work. They are seen as knowing the companies better than the centralized ESG team and can therefore offer the most pertinent insights. A mix of external data and internal scoring helps power the analyst views.

The separate sustainability team is relatively small. It ensures coordination across the business and the group’s involvement with various external bodies. Headcount has been increasing on the analytics side to help improve tools and information to hand, which includes comparing portfolios to certain ESG factors and metrics, helping to provide a deep level of look-through.

Engagement is in the hands of analysts who monitor progress with companies and log any actions. If this isn’t successful after a certain time, it is incumbent on them to change the ESG scoring, which can affect target prices and views on companies. Although housing this within the analyst and fund manager ranks maintains a focus within the investment process, a deeper level of support from the sustainability team does have further benefits. A central framework from specialists outside of those who are recommending an investment case can help provide a more rounded view. More important, they can offer further structure around engagement. There is currently little public-facing information on engagement case studies that evidence the group’s efforts in practice.

Bell Asset Management | Erica Hall | 1 July 2022

Good ESG incorporation but requires better transparency to rate among our best.

Bell signed on to the United Nations-backed Principles for Responsible Investment in 2014, and it incorporates ESG attributes at multiple points in its investment process. It has incrementally improved its ESG capabilities over time through improvements to research, policies, processes, and reporting. We would like to see Bell further improve its transparency on proxy-voting decisions and provide more-detailed ESG objectives within its policies.

Bell is a boutique global equities manager that integrates ESG considerations to the extent it believes that ESG incorporation can aid in delivering long-term returns to investors. In the investment process, ESG criteria act as an initial exclusionary screen, influence the firm’s quality factor assessment, and affect position sizing (they tilt the portfolios toward companies with higher ESG ratings and lower carbon intensity).

Bell Asset Management has encompassed ESG into its firmwide philosophy for longer than most Australia-domiciled global equities peers. Every portfolio manager is responsible for undertaking both fundamental and ESG research. This has resulted in a comprehensive database of information on listed equities, allowing for detailed monitoring and reporting on both quantitative and qualitative ESG data.

Bell has incrementally added to its ESG capabilities by widening its ESG screening criteria, mapping portfolios to United Nations Sustainable Development Goals, and monitoring and linking ESG standards to portfolio managers’ remuneration. It formalized its stewardship activities by structuring its engagement and escalation priorities in line with the Task Force on Climate-Related Financial Disclosures.

What holds back Bell Asset Management relative to peers is the limited detail contained in its public ESG investment policy, fund-level factsheets, and proxy-voting disclosures. While better than many Australia-domiciled counterparts, offshore peers, particularly in Europe, set a higher bar. Bell’s reluctance to comprehensively share active ownership activities and outcomes is an area for improvement. Overall, the firm’s ESG foundations are solid, but more is required in an evolving landscape—hence, the ESG commitment level assessment of Basic.

BlackRock | Alyssa Stankiewicz | 1 December 2022
A mix of capability and caution.

BlackRock's efforts to build out topnotch resources and integrate ESG considerations in most parts of its business is impressive, but its sheer size and asset mix hamper its ability to fully embrace a culture of sustainable investing. The firm earns a Morningstar ESG Commitment Level of Basic.

In January 2020, CEO Larry Fink's high-profile declaration that sustainability would become BlackRock's standard for investing kickstarted the firm's ESG efforts. Since then, the firm has ramped up its integration of ESG criteria to include nearly all actively managed strategies (roughly one third of the firm's assets) and rolled out fund-level ESG disclosures for all funds. BlackRock has also rolled out dozens of ESG-focused product offerings in recent years. However, both in terms of assets and volume, strategies that cater to sustainability-focused investors continue to be dwarfed by those that don't (accounting for 4% versus 60% of assets, respectively).

Despite being the world's largest asset manager, BlackRock's ability to push for improvement on ESG issues at investee companies seems limited. Fear of accusations of anticompetitive behavior means the firm is reluctant to file or co-file shareholder resolutions or join onto collaborative engagements. More recently, BlackRock has found itself at the center of anti-ESG sentiment in the United States, making the manager hesitant to promote a strong sustainability agenda, as evidenced by its latest voting record. BlackRock backed roughly half of key ESG resolutions in 2022, down from 72% in 2021, although still up from 16% in 2020. On climate-specific proposals, BlackRock's support also waned in 2022, judging them too prescriptive. But changes are afoot to give shareholders a bigger voice in the conversation. In 2021, BlackRock rolled out a pass-through proxy-voting program it calls "Voting Choice," which allows clients to choose a proxy-voting policy that reflects their individual priorities, effectively empowering investors to vote their own proxies. This option is not yet available to all shareholders, but it is a suitable workaround for those clients who can leverage it.

BlackRock's size gives it an edge over peers, particularly in its ability to process massive volumes of ESG data and translate it into meaningful investment insights. Still, the firm restructured its central sustainable-investing team in October 2022. Some functions, including sustainability research and ESG monitoring, moved into the broader BlackRock Investment Institute, and other functions such as client engagement remain in the renamed Sustainable Transition Solutions unit. The reorganization makes sense in principle, but it will take time for the team to harness new synergies and settle into new roles. The group hasn't been immune to turnover either. Roughly 30 sustainability-focused professionals (of a team of 70) left the firm since the beginning of 2019, although their roles were quickly backfilled.

When it comes to driving outcomes for sustainability-focused investors, BlackRock's size is in many ways its biggest strength and its biggest weakness, but bright spots remain.

Brown Advisory | Morningstar Manager Research | 17 November 2020
Brown Advisory's ESG efforts are small but growing.

Although an area of emphasis, Brown Advisory's ESG initiatives are confined to just a fraction of the firm, warranting a Morningstar ESG Commitment Level of Basic.

Brown Advisory is prioritizing its ESG efforts but only for its ESG-focused strategies. The firm's ESG beginnings date back more than a decade to its purchase of Winslow Management Company in 2009. Through that acquisition, the firm secured a team with deep roots in ESG analysis and began its first sustainability-focused strategy, Brown Advisory Sustainable Growth. Although Brown Advisory has a longer history with ESG investing than many of its peers, the firm has required and incentivized incorporating sustainability analysis only within its ESG-explicit strategies, which accounted for just 16% of the firm's assets under management as of June 2020.

The backbone of the firm's ESG efforts is a stable and growing lineup of sustainability-focused managers and analysts. In alignment with the broader firm culture, both experienced and newer talent make up the ESG-focused analyst team. The group conducts its own proprietary ESG evaluations using ample third-party data and through collaboration with the fundamental analysts, and those assessments are made accessible to the broader investment group.

Brown Advisory has a decent record of exercising active ownership, but the firm could do a better job of disclosing it to fundholders. The firm has thoughtful and systematic proxy-voting guidelines and typically supports ESG-related shareholder proposals. Engagement with companies is a regular occurrence at the firm and takes many forms, but the team prefers direct dialogue with company management. Regular reports discuss the firm's active ownership but only in broad strokes.

Capital Group/American Funds | Tom Nations, CFA | 1 November 2021
Capital Group's ESG efforts are deliberately improving on the margins.

Capital Group's environmental, social, and governance posture has improved, but the firm hasn't quite found its stride. It retains a Morningstar ESG Commitment Level of Basic.

Capital Group's recent prioritization of ESG is evident in the resources backing the effort. The firm's nascent ESG team has already grown to nearly 40 individuals, including a recently restructured engagement team. Granted, Capital partially constructed this outfit by reorganizing internal teams, like one focused on proxy voting. Still, the firm has made 25 external hires since 2018, including global head of ESG Jessica Ground, who previously helmed Schroders' global stewardship team. Capital is complementing this investment personnel with a new custom platform backed by dedicated software engineers and product managers. This will serve as the firm's central ESG repository, capable of ingesting internal and third-party data, fostering collaboration, and eventually surfacing detailed, customizable research reports.

Capital hopes to lead by example. The firm outlined its diversity, equity, and inclusion goals and provided internal gender and race/ethnicity data in its inaugural Global Citizenship Report and Update on Diversity, Equity, and Inclusion (DEI) report. In February 2021, the firm asked more than 1,500 portfolio companies to match its level of disclosure, requesting more data and greater transparency on the diversity of their workforces.

This DEI push is a welcome initiative, but Capital could do more to publicly detail how social and environmental considerations impact investment decisions. While it has long advocated for shareholder-friendly corporate governance policies, the reserved giant eschews sweeping, decisive statements on environmental and social issues. Capital has robust systems to track and report proxy voting by strategy—and has recently emphasized the build-out of its proxy-voting team—but it could provide more insight into key voting decisions in its disclosures, especially on environmental issues.

The firm's initial ESG ramp has also hit speed bumps. The centralized ESG team has seen some turnover, with five members departing in the past two years. Capital also tried repurposing its legacy corporate governance team to oversee its engagement efforts, but it recently reversed course. And while the ESG group has produced thematic ESG research, it is still constructing its sector-specific ESG investment frameworks, which are key to the firm's efforts to integrate ESG into its analyst and portfolio-manager decisions.

Colchester Global Investors | Justin Walsh | 1 August 2022

An encouraging start but a lack of transparency makes it hard to tell.

Colchester Global Investors surpasses the competition among global sovereign fixed-income managers by integrating environmental, social, and governance views directly into its research and engaging actively with sovereign entities, but transparency is lacking. Colchester only provides a broad overview of the outcomes of these assessments and activities. The firm earns a Morningstar ESG Commitment Level of Basic.

The firm signed the United Nations-supported Principles for Responsible Investment in 2016. Unlike many investment managers, Colchester does not have a separate ESG team, nor does it have specialist ESG analysts. Rather, based on the belief that ESG criteria is material to a country's suitability as an investment, Colchester integrates ESG assessments directly into its overall view of a country. Analysts supplement traditional sovereign credit analysis with a systematic integration of ESG factors. In its ESG assessments, Colchester does not use any third-party ESG databases, preferring to use publicly available data and internal research to formulate ESG views for each country. These views then form part of the proprietary financial stability score that Colchester assesses for each country.

As a sovereign-bond investor, Colchester is not able to vote proxies and so has developed an approach to engaging with governments to encourage progress on sustainability issues. For instance, it has met with several sovereigns (including Malaysia and India) to discuss their strategies for lowering emissions and approaches to ensuring the viability of their targets. As part of its commitment to ESG, Colchester regularly gives high-level overviews of its engagement with sovereign issuers. Still, more detail and transparency would be a plus.

Columbia Threadneedle | Morningstar Manager Research | 10 May 2021
Columbia Threadneedle earns a Morningstar ESG Commitment Level of Basic.

Columbia Threadneedle's effort to integrate environmental, social, and governance considerations is still a work in progress; more time and efforts are needed to expand the impact of sustainability criteria beyond the limited number of ESG-focused strategies. The firm earns a Morningstar ESG Commitment Level of Basic.

Columbia Threadneedle has raised sustainable investing up to one of its top corporate priorities. Demonstrated progress in integrating the company's growing ESG resources into its global fundamental research platform is encouraging. The firm built on Threadneedle Asset Management's experience as a founding signatory of the United Nations-supported Principles for Responsible Investment and its responsible investing team created in 1998. This team, which now counts 15 experienced professionals divided between thematic research and investment stewardship (company engagement and proxy voting), is fully integrated into the firm's global research platform. A strong flow of third-party data from multiple providers as well as a suite of proprietary tools including dedicated ESG portfolio monitoring, ratings, screeners, and dashboards, are available to every investment professional across the firm.

However, integration of ESG factors has yet to be deployed beyond the research process and across a higher number of strategies. ESG-focused strategies represent a mere 6% of the company's half-trillion dollars in asset under management. As such, the vast majority of the firm's products is run by managers with full latitude to integrate or not integrate ESG criteria into their investment decisions.

When it comes to proxy voting, Columbia Threadneedle has structured policies in place and a strong record of voting in support of key climate and social justice resolutions. On the ESG engagement side, the firm's approach is developing in the right direction, building on a dedicated team integrated into the global research group. However, it is still in its early stages. We note that the overall engagement strategy is missing specific stated goals in terms of outcomes against which the effectiveness of engagements can be measured.

While the deal is not expected to close before the end of 2021, we see Columbia's acquisition of BMO GAM's European business, including its ESG capabilities, as a signal of the company's growing commitment to sustainable investing.

Comgest | Mathieu Caquineau | 1 February 2022
Comgest has built a credible ESG approach but falls short of some of the industry's best practices.

Comgest has made efforts in the last decade to bolster its ESG credentials by hiring a dedicated team of analysts and by formally integrating ESG factors in its quality-growth investment approach. But in a fast-evolving field, the firm finds itself with fewer dedicated resources than some competitors and lacking the depth of ESG integration and active ownership practices of the most advanced players. The firm earns a Morningstar ESG Commitment Level of Basic, instead of its previous Advanced ESG Commitment Level.

ESG integration is a natural extension of Comgest's well-entrenched quality-growth approach. Since 2013, the firm has formalized the incorporation of ESG factors into its standard investment process to the point where it systematically plays a role in investment decisions. The investment teams use ESG factors to identify growth opportunities for companies and assess risks that might threaten their long-term earnings power. The discount rates used in their valuation models are adjusted upward or downward according to their proprietary ESG quality ratings. Comgest has also introduced a suite of "Plus" funds that apply fossil fuel exclusions on top of existing firmwide exclusions, but none of its funds are ESG-focused strategies and the investment teams don't seek specific ESG outcomes against the indexes.

The firm's ESG research efforts are led by a central team of five analysts that has been slowly built out since 2012. This team is experienced, has relevant ESG credentials, and works closely with the investment staff. But these dedicated resources appear small today given the increased requirements of a proper ESG program, the number of stocks held across the funds (around 350), and the broad scope of the investment universe, which includes emerging markets.

Meanwhile, the firm has room to improve on the active ownership front. The firm's engagement policy targets only a subset of companies held across the portfolios (around 60 in 2021). Proxy voting is diligent and transparent, yet there are no specific voting guidelines around environmental and social issues. Overall, Comgest's approach to sustainable investing and active ownership still shows an emphasis on corporate governance, which has historically been a key tenet of its philosophy. A more holistic approach of E, S, and G would strengthen the firm's credibility in its sustainable investing journey.

DWS | Natalia Wolfstetter | 1 December 2021
DWS has committed to deepen its sustainability footprint, but more work is needed to bridge the gap between ambition and reality.

Environmental, social, and governance integration has become one of DWS' major strategic initiatives in recent years, and the firm has made progress on several fronts, but more remains to be done. It continues to earn a Morningstar ESG Commitment Level of Basic.

DWS has ramped up data, tools, and ESG analysis, making them available to portfolio managers and analysts via the DWS ESG Engine and encouraging ESG integration into investment processes, helped by sector-specific ESG investment frameworks. Collaboration between the firm's sizable centralized ESG team, which was launched in 2017, and the broader investment platform is facilitated through ESG gatekeepers in every major investment team. DWS has introduced additional management layers to drive and coordinate its sustainability strategy, which includes a groupwide chief sustainability officer. We note, however, that in 2021, the firm lost its first chief sustainability officer after a fairly short period of time following a dispute over the true level of ESG integration across the firm.

In its ESG integration policy, the firm requires that all analysts and portfolio managers take into account material ESG risks. Except for ESG-focused offerings, which currently represent 8.2% of overall assets, managers retain discretion over the ESG outcomes. That said, the firm has introduced a centralized process to monitor and potentially restrict exposure to the most severe ESG laggards, defined as companies that score worst on norms compliance and climate transition risk. The firm also plans to classify most of its European Union-based fund lineup as Article 8 or Article 9 under SFDR by the first quarter of 2022, which should raise the bar in ESG terms. Product development and distribution efforts focus on ESG offerings, with most of the firm's fund launches being ESG-focused and more than 40 strategies (including exchange-traded funds) being converted to sustainable products so far this year.

Rather than applying universal exclusions, DWS prefers engaging with companies to improve corporate behavior. The firm is expanding its engagement activities, which will include centralized monitoring of a group of approximately 50 companies targeted for their poor climate-credentials as part of the firm's commitment to the Net Zero Asset Managers Initiative signed in December 2020. The firm also engages in collaboration with other investors through industry coalitions such as Climate Action 100+. While the new engagement framework brings more structure, adoption is still in its early stages, and it remains to be seen how the firm deals with companies that do not meet engagement goals. The firm often votes in favor of ESG-related shareholder proposals, and proxy-voting disclosure is comprehensive, with rationales provided for votes against company management.

Eventide | David Kathman, CFA, Ph.D. | 1 November 2021

Sustainability has always been central to this firm's investment process, but limited resources hold it back.

Eventide Asset Management's longtime commitment to environmental, social, and governance principles is somewhat offset by the limited resources it has available to implement those principles. The firm earns a Morningstar ESG Commitment Level of Basic.

Ever since Eventide's founding in 2008, ESG and faith-based criteria have been integral to the firm's investment process. As of October 2021, Eventide had $8.8 billion in assets under management in seven mutual funds, all of which incorporate ESG factors as well as faith-based criteria. This is done partly via the custom-built Edify screening process, which draws on four outside databases to screen out stocks that do not meet the firm's standards, and partly via the holistic "Business 360" process, which identifies companies that relate well to six different stakeholders. While this commitment to sustainable investing principles is admirable, Eventide's ESG infrastructure is still a work in progress.

As a small boutique firm, Eventide has always had limited resources for ESG. The firm didn't hire its first full-time Business 360 analyst until 2018, and it still only has three such analysts. The firm has never signed the United Nations-backed Principles for Responsible Investment because it doesn't have the resources or bandwidth for the required level of collaboration, promotion, and reporting. Similarly, Eventide is not a member of any secular ESG-oriented investor coalitions and does not engage in formal policy advocacy. The firm doesn't publicly report on its company engagement or proxy voting (other than the required SEC filings), again because of a lack of resources. Over the past few years, Eventide has beefed up its screening methodology and formalized aspects of its Business 360 process, but it is still catching up with bigger firms that have more resources and a deeper commitment to active ownership.

Fidelity International | Morningstar Manager Research | 1 May 2022
Fidelity International has invested significant resources into its ESG program but could do more at the portfolio level.

Since 2019, Fidelity International has put environmental, social, and governance investing at the forefront of its agenda. The firm has invested significantly in tools and personnel. However, we would like to see further impact of this investment at the portfolio level. It earns a Morningstar ESG Commitment Level of Basic.

Under the guidance of senior management, all areas of the business have increased their focus on ESG. While there has been some basic form of ESG integration across the firm for many years, it has become formalized and more significant since 2019 with the development of a proprietary ESG scoring system, which was revamped for 2022. That system combines data from external sources with insights and input from FIL's vast bank of analysts, and it leverages the firm's resources well. Although portfolio managers are challenged on ESG issues in their quarterly reviews, they are not necessarily precluded from having a low portfolio sustainability score or holding poor ESG performers.

The central sustainability team grew significantly in 2021 and stood at 30 individuals as of January 2022. There is also an additional team of 10 to deal with the operational side of ESG; for example, monitoring the use of green bond proceeds. With FIL's size, securities can be held by different managers, so having a large team is ideal to help coordinate engagement and proxy voting. The engagement program is commendable and based on the ESG themes identified as most important, but it can also focus on arising controversies. FIL is also a member of investor coalitions FAIRR and the Net Zero Asset Managers Initiative. The 2021 proxy-voting guidelines were a significant improvement on the previous editions, especially in relation to guidelines on the environment. On another positive note, the firm often votes in favor of ESG shareholder resolutions.

FIL produces materials related to ESG, including short and in-depth research, engagement reports, and full voting records, including reasons for voting against management. Fund-level ESG information has improved, with ESG data available on fact sheets for all funds.

First Sentier Investors | Matthew Wilkinson | 1 May 2022
Positive direction of travel but implementation in investment strategies has yet to materialize.

First Sentier Investors embraces lofty ESG investment goals, but a relatively small responsible investment team is under resourced to support implementation within each investment group. Consequently, it receives a Morningstar Commitment Level of Basic.

First Sentier Investors is a collection of individual investment teams that implement their own active investment strategies. The responsible investment team is headed by Will Oulton, who has nearly 20 years' experience in sustainable and responsible investment. He leads a group of four that provides ESG principles for the investment teams to enact. The RI team empowers each investment unit with policy guidelines, background knowledge, and training across all areas of ESG. While each investment team counts an ESG representative that liaises with the RI team, the latter is too small with regards to the firm's asset base to provide consistent quality support. A more comprehensive oversight of policy implementation and more-frequent portfolio reviews by the RI team are aspects that could be improved. This should be within reach as the RI team grows, more resources are slated, and processes advance to ensure higher standards of ESG integration. However, industry expectations of ESG strategies are evolving rapidly, underpinning the need for stronger infrastructure here.

The only firmwide exclusions applied are related to controversial weapons and the tobacco industry, as is often the case in Australia. Notably, the RI steering group, who set the strategic direction, has prioritized four key areas of focus for the firm: climate change, modern slavery, diversity, and biodiversity. The various investment teams are expected to consider each of these issues before allocating capital. However, First Sentier has typically focused on valuation rather than ESG issues. The proxy-voting record made publicly available is a step in the right direction, but best practice would include more details on voting rationales, particularly on environment and social resolutions.

First Sentier has a workable base to integrate ESG into its investment process, but additional resources and further evidence of its consistent integration would better support the firm's lofty goals.

Goldman Sachs Asset Management | Morningstar Manager Research | 10 May 2021
Goldman Sachs earns a Morningstar ESG Commitment Level of Basic.

Goldman Sachs Asset Management has been growing its resources to support its environmental, social, and governance efforts and shown notable improvement in its active ownership practices, resulting in a Morningstar ESG Commitment Level of Basic.

GSAM signed the United Nations-backed Principles for Responsible Investment at the end of 2011, well ahead of many U.S. asset managers, and it has done credible work to incorporate ESG data into its systems. For instance, the firm maintains a large database of all internal and external ESG research that its investment professionals can readily tap, and it developed robust proprietary tools that portfolio managers can use to monitor ESG metrics.

For the most part, investment teams analyze ESG data from the bottom up, alongside traditional financial data, and have full autonomy to use it as deemed appropriate. While each of the teams incorporates ESG considerations at varying degrees, the firm also offers a handful of ESG-focused funds, which represent about 10% of total fund assets.

Unlike many peers, GSAM does not have a large central ESG investment team. Rather, about 40 investment professionals dedicate part of their time to ESG research, and the firm intends to continue growing this group over time. Some of the 40 team members have a clear emphasis on ESG analysis, while others appear to spend considerable time on other duties. Most of these individuals joined GSAM within the past three years, and team turnover has been higher than that of many peers.

The firm boasts detailed ESG proxy voting guidelines, which it strengthened in April 2021 during its annual policy update. Notably, the firm bolstered its stance on gender and racial diversity on firm's board of directors and added language to encourage companies to disclose climate-related data. On the disclosure front, GSAM has also made progress by committing to disclose its votes publicly on a quarterly basis, up from annually. Investors can find highlights of its corporate engagement activities in the firm's 2020 annual stewardship report. However, the report covers activities only up to June 2020 and case studies provided don't go into much detail. While many of GSAM's peers have now joined the Climate Action 100+ collaborative investor engagement initiative, the firm has yet to do so.

Invesco | Gregg Wolper, Ph.D. | 10 May 2021
Invesco earns a Morningstar ESG Commitment Level of Basic.

Invesco has grown its environmental, social, and governance efforts substantially in recent years, though it is still a work in progress and has evolved further in some areas than others. It receives a Morningstar ESG Commitment Level of Basic.

Invesco had a modest ESG effort in place for years, but it took an important step toward developing a robust ESG program in 2019 when it named Cathrine de Coninck-Lopez as global head of ESG. Bringing with her more than 12 years of experience in sustainability, De Coninck-Lopez leads a team of 13, while other personnel around the world also have certain ESG responsibilities in their region. The members of the ESG team are well-qualified, but the team's size is not that substantial, considering that Invesco manages more than $1 trillion in both active and passive strategies.

Besides the ESG-specific funds it already offers, Invesco's goal is to incorporate ESG capability into every strategy in every asset class. It concedes that, while that process has already taken place with some investment teams, in others it will take longer, with 2023 targeted as the date the integration should be fully in place. That said, all fixed-income analysts are already expected to incorporate ESG ideas into their reports.

In evaluating companies, Invesco uses a variety of sources as well as its own internal research, and the result is an internal resource called ESGintel that provides detailed descriptions, analysis, and opinions of the ESG characteristics of all companies in Invesco's investment universe. Invesco does not have a firmwide list of excluded companies, arguing that allowing a diversity of approaches to that topic among their many teams in different parts of the globe is more appropriate.

On the proxy-voting front, Invesco is moving from a decentralized approach that currently allows each investment team to make their own decisions. The firm is in the process of establishing more global directives, whereby teams that wish to vote differently from Invesco's global guidance must then present compelling reasons for that decision. The new system should allow the firm's votes to have more clout with companies.

JPMorgan Asset Management | Emory Zink | 10 May 2021
Building momentum.

This is an earnest but nascent effort, earning JPMorgan Asset Management a Morningstar ESG Commitment Level of Basic.

Rather than impose a broad environmental, social, and governance investing framework over existing investment processes, the firm argues that meaningful ESG integration is a bottom-up proposal that happens at the security level. While this approach theoretically places ESG considerations alongside more traditional valuation inputs, it remains difficult to assess the true depth and intensity of its application.

A signatory of the United Nations-backed Principles for Responsible Investment since 2007, the firm has a history of developing proprietary ESG tools. For example, in a 2013 effort to better understand the risks of investing in emerging-markets equities, analysts created a fundamental ESG-focused checklist. By 2021, that project evolved into a 40-question ESG checklist that is applied to corporate entities across the capital structure. Yet the firm invests in plenty of securities that require a more customized approach, such as municipal and securitized debt, illustrating continued challenges to simply broadening the use of existing tools.

More than standardized checklists are in the works, too. The year 2019 realized the appointment of Jennifer Wu to coordinate the firm's sustainable investing efforts. She is in charge of the sustainable investment leadership team, a group of around 90 senior leaders who advocate for thoughtful integration of ESG considerations into all investment processes. A subset of that group monitors the firm's ESG-focused strategies (which account for 3% of assets under advisement). Wu's dedicated 17-person sustainable-investing cohort, expected to roughly double in size over the coming year, faces a formidable set of tasks. This fresh set of ESG collaborators responsible for standardizing existing frameworks and employing 22 external ESG-focused data sources into existing quantitative models have yet to build a record of influence.

Throughout 2020, the firm's stewardship team undertook 500 engagements across 96 companies and has laid out a prioritization, progress, and escalation process. Historically, JPMorgan Asset Management's proxy-voting support for ESG issues has been low. However, in 2020, the firm more often than not favored key ESG resolutions, and this record is publicly available on its website. Timely reporting on engagements undertaken in 2020 was provided in the firm's March 2021 annual stewardship report. The firm joined the Climate Action 100+ Investor Initiative in January 2020, committing to lead at least one engagement with a heavy emitting company on behalf of the Initiatives investors. This is a positive development, but more commitment is required in light of net-zero commitments made in November 2020 by JPMorgan Asset Management's parent, JPMorgan Chase. JPMorgan's banking arm was named the largest fossil-fuel lender in the world in the Rainforest Action Networks Banking on Climate Chaos 2021 report- an annual survey of institutional lending to the fossil-fuel industry.

Liontrust | Morningstar Manager Research | 1 February 2022
A mixture of ESG integration is present at Liontrust.

Liontrust Asset Management operates as a series of boutiques, with each investment team maintaining a high level of autonomy. This means ESG practices among the teams vary significantly. With some of its investment teams further ahead than others in terms of ESG integration, Liontrust receives a Morningstar ESG Commitment Level of Basic.

The group has been working with each investment team individually to ensure that the approach to ESG is suitable for each team’s investment process and in accordance with local laws, such as EU Sustainable Finance Disclosure Regulation for offshore fund ranges. Having completed the ESG integration formalization process with the Sustainable Future, Economic Advantage, and Fixed-Income teams, those teams are now seen as fully ESG-integrated. This process is being undertaken with other Liontrust teams, but it may take some time to cover all assets, especially given the breadth and number of different investment styles present.

From both an assets and an ESG perspective, the Sustainable Future team is the business’ leader. The team has its own distinct approach to ESG investing, which is at the heart of the investment process, and all its funds are ESG-focused. The team also accounts for over one third of Liontrust’s assets under management, which gives its strong ESG credentials significance in terms of the overall group’s standing. Some of the members of the Sustainable Future team have been active in ESG for many years. For example, Peter Michaelis, head of the team, has managed the UK equity strategy for over 20 years.

The governance and stewardship specialists who joined with the Sustainable Future team in 2017 now number three and are a central resource available to all Liontrust investment teams, but they are not yet widely utilized. Liontrust also provides all teams with MSCI ESG ratings data.

On engagement and voting, individual teams carry out their own activities. Proxy votes are cast for all equity assets, but the type and level of engagement is different from team to team. At the moment, there is not much coordination between investment teams. As expected, the Sustainable Future team is strongest on active ownership and has its own engagement themes. Liontrust more broadly also has key engagement priorities, but data showing its success here is sparse (outside of the Sustainable Future team) and improvement would be welcome.

M&G | Giovanni Cafaro | 1 July 2022
Significant recent progress has yet to come to full fruition.

M&G has made substantial progress to integrate ESG within its activities and invest in new ESG resources in recent years. This includes formalizing firmwide ESG principles and commitments, upping the headcount of its Stewardship & Sustainability team, and developing proprietary ESG analytics. However, some challenges remain in place, especially around fund-level reporting and continued ESG integration across core products. This leads to a Morningstar ESG Commitment Level of Basic.

M&G has built its reputation on fiduciary duty and active ownership, with recent improvements allowing the team to look beyond traditional governance issues and take into consideration a wider range of factors related to environmental and social issues. M&G signed the United Nations-supported Principles for Responsible Investment in January 2013, and it is a member of many industry initiatives, including being a founding signatory of the Net Zero Asset Managers Initiative in December 2020. The team has also taken an active role in collective engagements in bodies such as Climate Action 100+, FAIIR, and FFP, leading to positive outcomes.

The firm has deployed significant resources to grow its S&S team to 24 professionals, with more than half joining in the last three years. Rob Marshall heads up the team, which is split into five subgroups with different areas of focus ranging from ESG research and integration to climate analytics. The team recently developed a set of tools including a scorecard and a portfolio analytics tool, which provide fund-level ESG insights to portfolio managers. M&G has also expanded its sustainable fund range more recently, with product launches ranging from stand-alone impact strategies to sustainable versions of long-standing funds.

Room for improvement remains. For example, fund-level ESG reporting is still in its early phases, and factsheets include only limited ESG data. Core funds are also yet to benefit from a more comprehensive integration of ESG factors, with the portfolio managers only recently gaining access to the new set of tools. Additionally, more clarity around M&G's active ownership activities, including comprehensive proxy-voting rationales, would be welcomed. Despite the recency of overall progress, the firm appears to be committed to continue prioritizing ESG efforts in the coming years.

Macquarie | Tim Wong | 1 June 2022

A clear agenda to address carbon emissions, though slim resources and limited disclosure hold it back.

Macquarie Investment Management pushes a lower carbon emissions agenda, which materializes in its engagement and advocacy efforts, but thin central ESG resources, weak firmwide policies, and lackluster disclosures constrain its ability to pursue its most ambitious ESG goals. As a result, it attains a Morningstar ESG Commitment Level of Basic.

Macquarie's net-zero carbon-emissions pledge underpins much of the firm's ESG philosophy. The firm has pledged to hit net-zero emissions by 2040, but Macquarie's investment teams have not universally adopted this initiative yet. In line with the firm's climate ambitions, Macquarie co-led a collaborative industry initiative to improve planning and disclosure around carbon emissions within the Climate Action 100+ organization. However, this laudably active approach to engagement is diminished somewhat by the fact that the firm does not consistently disclose proxy-voting rationales or engagement outcomes, a common practice among the leading lights in the industry.

Investment teams within Macquarie's public markets group have latitude to implement their own approach to applying ESG factors. Barry Gladstein leads a central group of ESG specialists to educate investment teams on thematic ESG issues and with company engagements, but the lack of central binding goals for investment teams means the ESG effort remains disjointed. This team ensures that firmwide ESG policies are upheld and oversees the centralized ESG database, among other responsibilities. Still, ESG resourcing for the broader public markets team is at the lighter end, and the team may be constrained as engagement work continues rising.

All in all, Macquarie Investment Management does some commendable work in applying ESG principles to investing, though it could take additional steps to reach the loftiest heights.

MFS | Jack Shannon | 10 May 2021

MFS earns a Morningstar ESG Commitment Level of Basic.

MFS's decentralized, bottom-up approach to environmental, social, and governance integration fits nicely with its broader, long-term investment philosophy but remains a work in progress; it earns a Morningstar ESG Commitment Level of Basic.

MFS generally long investment horizon is a natural ally to its ESG incorporation efforts. The firm's talented central research team, which includes more than 100 fundamental research analysts, integrates ESG data into its broader analyses of companies. ESG is not considered in a top-down fashion, and the portfolio managers do not screen out or otherwise exclude any stock purely on the merits of an ESG ranking or score. Rather, the research analysts adjust model inputs based on the materiality of any ESG risks that a company may be facing. These assumptions impact analysts buy and sell recommendations, which flow into portfolio decisions. This long-term-focused, bottom-up effort tends to push its funds away from poor-ESG stocks and into companies with more-sustainable business models. MFS does not offer ESG-mandated products, though its current lineup generally scores well against its category peers in terms of Portfolio Sustainability Scores.

The firm also has dedicated central ESG resources, though they are not deeply experienced in the space. Barnaby Weiner, MFS first ever chief sustainability officer, took over the role in 2018 after spending years as a traditional portfolio manager. He is joined by three dedicated ESG research specialists, each of whom began their careers as fundamental analysts, but two of whom began their ESG roles within the past three years. The central team plays more of a support role and pushes out data and research to the fundamental analysts.

MFS still has plenty of room to grow. Its portfolio managers are not as actively engaged with company management on ESG issues as some peers. Proxy voting is largely done by a central team, and its formal voting guidelines are not as robust as other firms. Additionally, MFS generally lags higher-ranked peers in terms of disclosures around fund- and company-level ESG metrics.

Morgan Stanley Investment Management | Katie Reichart | 10 May 2021
Morgan Stanley earns a Morningstar ESG Commitment Level of Basic.

Morgan Stanley Investment Management has dedicated environmental, social, and governance resources and is largely supportive of ESG shareholder resolutions, but many strategies aren't systematically incorporating ESG considerations, leading to a Morningstar ESG Commitment Level of Basic. Its recent acquisition of Eaton Vance (including ESG specialist Calvert) is excluded from this analysis until the integration solidifies.

MSIM has shored up its ESG resources, though the effort at the team level is fairly new. It has a seven-person central sustainability team, which is a shared resource across MSIM, Wealth Management, and the Institutional Securities group. Each of MSIM's individual teams has at least one embedded ESG analyst (11 in total); some are original team members who pivoted to ESG, and others are new hires. The dedicated group of 18 ESG personnel is fairly tenured, with an average of about 12 years of ESG experience. Several new joiners in 2020 indicate the firm has ramped up its efforts recently.

MSIM does not institute an overarching ESG philosophy across its lineup; each team is allowed to craft its own approach. This aligns with the firm's multi-boutique model, which lets each team autonomously pursue its own investment style. That said, ESG considerations are a bit more systematically integrated on the fixed-income side. MSIM provides access to nine ESG data sets, which can be incorporated differently across teams. Some teams have developed proprietary data sets on key issues. For instance, the Counterpoint Global team has crafted models around executive compensation and employee retention. While ESG risks are observed across strategies, there are no top-down rules requiring managers to make portfolio changes based on ESG considerations, and ESG integration does not influence compensation directly.

Individual teams drive corporate engagement rather than MSIM pursuing thematic issues across all portfolios. While the firm is part of some investor coalitions, it has not led any collaborative engagements lately and prefers one-on-one engagements. It has dedicated in-house proxy-voting resources, and Morningstar's analysis indicates MSIM recently had a high level of support for ESG resolutions. Meanwhile, the implications of MSIM's acquisition of ESG specialist Calvert are unclear.

Nanuk Asset Management | Michael Malseed | 10 May 2021
Growing firm with sustainable focus still has work to do.

Nanuk Asset Management's investment philosophy and culture are centered around sustainability, but given its limited environmental, social, and governance resources versus a competitive global peer group, it earns a Morningstar ESG Commitment Level of Basic.

Founded in 2009 with a purpose to invest in companies expected to benefit from a global shift toward sustainable practices, Nanuk Asset Management's philosophy aligns with the subset of ESG managers focused on impact investing. At least 25% of an eligible investment firm's value must be derived from activities that contribute to improving global sustainability. The firm also has a broad exclusion list including coal, oil & gas, uranium, nuclear generation, weapons, adult entertainment, alcohol, correctional facilities, gambling, and tobacco. Despite this core firmwide mission, Nanuk has been slower to adopt traditional ESG standards. For example, it only became a signatory of the United Nations-backed Principles for Responsible Investment in 2018 and as of first-quarter 2021 had yet to publish an ESG engagement report. Part of the problem has been the firm's lack of scale to date to add dedicated ESG resources to support the portfolio managers who have a lot on their plates given a multiportfolio approach. As the business grows, we hope to see an improvement here.

Overall, while the philosophical stance of the firm provides a solid foundation, in a competitive global peer group and increasing investor expectations around transparency and reporting, Nanuk Asset Management still has work to do.

Natixis Solutions | Madeline Hume, CFA| 1 January 2022
Recent efforts don't stand out next to more-innovative peers.

Natixis Solutions led the industry by launching an ESG target-date series in 2017, but the group will have to evolve further to stay competitive as the industry matures. The firm earns a Morningstar ESG Commitment Level of Basic.

Natixis Solutions runs a limited lineup of multi-asset strategies that invest in funds managed by sibling affiliates of the holding company, Natixis Investment Managers. The flagship offering is a sustainable target-date strategy, but beyond the series' design and assignment of mandates, the manager selection team takes a relatively hands-off approach to ESG oversight and engagement, resulting in portfolios that are lackluster from an ESG perspective.

Natixis Solutions does not have an ESG investment policy, and it doesn’t enforce consistent exclusions across the fund lineup (target-date or otherwise), instead largely relying on underlying managers to integrate ESG criteria as they see fit. This doesn’t measure up to peers who employ more-stringent screens on underlying managers. Furthermore, because the firm invests primarily in stand-alone funds, its active ownership capabilities are limited. Those funds’ managers control proxy-voting and company engagement activities for the target-date series and the firm’s model portfolios. Natixis Solutions collaborates with investor coalitions such as CERES, ICCR, and As You Sow, but this doesn’t stand out next to more advocacy-oriented firms.

Natixis Investment Managers seeks to improve cohesion and clarity around the ESG practices of underlying affiliates, but it is unlikely to mandate firmwide adherence to a central ESG policy. Moreover, NIM’s ESG leadership has seen turnover: Harald Walkate, who led the ESG effort since 2019, left the firm in 2021 and was replaced by Nathalie Wallace. It will take time for this team to drive material improvement in the ESG practices of underlying affiliates.

Neuberger Berman | Paul Ruppe | 1 April 2022
Neuberger Berman’s budding ESG efforts are evolving in step with industry peers.

Neuberger Berman has continued to put considerable resources behind its burgeoning environmental, social, and governance efforts, but the effects on portfolio construction remain less clear, underpinning a renewed Morningstar ESG Commitment Level of Basic.

While the firm signed the United Nations-backed Principles for Responsible Investment in 2012, Neuberger Berman’s ESG push ramped up in 2017 with the hiring of Jonathan Bailey as head of ESG and impact investing. He built out a dedicated team with three goals: develop proprietary ESG ratings, encourage the firm’s varied investment teams to adopt those ratings, and organize the firm’s ESG reporting. Bailey has grown his team from just six members in 2020 to 14 as of late-2021, with ambitious plans to hire more. The team has respectable credentials and regularly publishes ESG-investing research on the firm’s website. Meanwhile, the firm has made significant ESG analytical tools available to its investment teams such as its proprietary ratings—the NB ESG Quotient—and more than 18 third-party data sources.

ESG disclosure at the strategy level remains a work in progress, however, so it is difficult to measure the impact that the NB ESG Quotient and other third-party datasets have had on portfolio management across the firm’s conventional strategies. Meanwhile, longtime portfolio managers Ingrid Dyott and

Sajjad Ladiwala of Neuberger Berman Sustainable Equity have announced plans to retire in 2022, which is a loss. The firm hired Dan Hanson from Waddell & Reed in early 2022 to replace them. While Hanson has respectable credentials for the role, having managed ESG portfolios for institutions since 2006, the transition creates some uncertainty considering the strategy is the firm's flagship ESG offering.

Neuberger's firmwide reporting remains sensible and accessible. Neuberger Berman publishes an annual ESG report highlighting its corporate engagement and proxy-vote disclosure initiatives. It reported more than 3,600 engagements with companies as of December 2020, on issues such as health and safety, fair compensation, and climate disclosures. While its investment teams handle most of these interactions, the ESG team takes the lead in a few discussions.

The firm uses its NB Votes initiative, which launched in 2020, to spur dialogue and effect change by disclosing in advance how it intends to cast its proxy votes on key issues. The firm thoroughly evaluates its proxy votes on a case-by-case basis and has not shied away from opposing corporate managements when it believes doing so will better investors. For example, in 2021, the firm predisclosed its stance on 60 key votes and took positions against company managements 48% of the time. The practice of predisclosing votes is distinctive among peers and has considerable appeal.

Ninety One | Morningstar Manager Research | 1 February 2022
A solid ESG base is in place from which to develop further.

The approach to ESG integration at Ninety One is solid, but we would like to see more at the fund level. Ninety One earns an ESG Commitment Level of Basic.

In the past, Ninety One had a larger central sustainability team, but it has made efforts to decentralize ESG expertise in order to make it part of the day-to-day investment activities. ESG analysts who previously sat in the central team have moved into the risk and investment teams, but there is still a central team to coordinate engagement and voting, as well as to oversee effective ESG integration in investment decision-making. With input from senior management, the Sustainability and Stewardship Committee has helped each team develop its own approach to ESG and will also provide ongoing monitoring. Ninety One saw its global head of sustainability, Therese Niklasson, leave the firm at the end of 2021, but the firm plans to replace her. Ninety One also created a new chief sustainability officer role, to be filled by Nazmeera Moola, who will spearhead engagements and oversee firmwide sustainability initiatives. Ninety One does not have a proprietary ESG tool but does equip investment teams with data. There is a portfolio-level ESG profiling tool and a proprietary carbon risk tool, but they are used primarily on an ex-post basis. One area in which we believe the group could improve at the individual strategy level is tilting toward strong ESG companies during stock selection rather than just avoiding laggards. The firm has three ESG-focused strategies, which were all launched only in the past few years.

Active ownership at Ninety One is characterized by a soft-touch approach and few hard rules around voting and engagement. Nonetheless, the firm votes on all equity assets, often in favor of ESG resolutions. On more-contentious issues, Ninety One prefers to engage and work with management rather than voting against them or escalating—for example, via filing a shareholder resolution, which the firm has never done. Policy advocacy and initiatives are an area of focus for the firm, having signed onto eight in 2021. Disclosure on voting and engagement activities is good, with plenty of detail on both an aggregate and granular level.

Payden & Rygel | Chris Tate, CFA | 1 June 2022
Displays great depth in sustainable fixed-income investing.

Payden and Rygel's sustainable fixed-income investing is on a reasonable journey, but further depth to embed ESG factors and greater disclosure of these efforts are desirable. It earns an ESG Commitment Level of Basic.

Payden aims to integrate material ESG risks and opportunities that may not be present in traditional information sources but which may impact future performance. There are two pillars underpinning this ESG approach. First, rather than impose a broad ESG framework as an overlay, the firm prioritizes ESG research as a meaningful part of bottom-up credit analysis, which directly impacts valuations and security selection. In addition to this bottom-up fundamental research, the firm's individual strategy teams, with some broader oversight, apply a top-down approach to managing and monitoring ESG risks in each portfolio. Although not an ESG-focused manager, some level of ESG integration is applied to around half the firm's assets, while a small portion meets a higher standard.

Payden's central ESG team is small considering the firm's roughly USD 150 billion assets under management. Instead, representatives from each of the firm's strategy and research teams comprise the firm's ESG committee. This committee acts as the center of excellence for coordinating and disseminating ESG information and best practices, under the guidance of head of ESG Laura Lake. Credit analysts, research departments, and strategy teams lead bottom-up ESG research activities. ESG considerations go beyond merely corporate credit, extending to developed sovereigns, emerging markets, and securitized, a breadth not common among fixed-income managers. To supplement this fundamental analysis, ESG data, both external and proprietary, are widely available through the firm's internal system, including alignment with SASB industry standards, materiality maps, and scorecards.

The firm's role as a debtholder limits its ability to engage with portfolio companies because it can't vote proxies or participate in shareholder resolutions. Therefore, Payden takes a collaborative approach to engagement. For example, Payden is an active member of the Carbon Disclosure Project's initiative to improve climate risk disclosures, and the firm is an ongoing participant in the United Nations-supported Principles for Responsible Investment's sovereign credit working group. Payden's engagement policy lacks specificity; in particular, the firm doesn't provide measurable environmental and social goals for portfolio holdings, against which the effectiveness of engagements could be measured. A robust internal engagement tracking system is in place, inclusive of ESG topics and outcomes, but disclosure is an area that could be much improved.

Pendal | Tim Wong | 1 July 2022

A meaningful and growing investment into ESG research is hindered by uneven disclosure around active ownership efforts.

Pendal has a three-decade-plus track record managing ESG-oriented strategies, and the acquisition of ESG research specialist Regnan demonstrates ongoing commitment, but its disclosure around engagement activities lags competitors'. The firm earns a Morningstar ESG Commitment Level of Basic.

Pendal has managed dedicated ESG strategies across equities, fixed interest, and multisector for many years. It co-founded Regnan (a provider of thematic ESG research, engagement, and advisory services) in 2007, with Regnan providing research to support Pendal's ESG-focused funds. Pendal assumed full ownership of Regnan in 2019 and has since beefed up the team (spanning 15 people mostly across ESG research and investment). Regnan has launched impact investment strategies spanning global equities (including a water-focused offering) and a credit strategy.

Edwina Matthew (head of responsible investments) and Stuart Eliot (ESG multi-asset portfolio manager) both left for competitors in 2022, which is not ideal. Senior figures Crispin Murray, George Bishay, and Michael Blayney remain in place and are equipped to continue managing Pendal's ESG offerings. In recent years, Pendal has prioritized the development of proprietary ESG tools, such as a climate risk model that supports the team's understanding of carbon emissions sensitivities at the stock level. On the other hand, incentive compensation has no discrete linkage to ESG outcomes, so accountability for this research is less robust than at competitors.

Disclosure on ESG matters could also be better. The shop presents its views on ESG issues with businesses and seeks tangible progress on these matters, and it is a major voice in the Australian equity market. However, reporting on proxy-voting decisions is infrequent and lacks detail, and proxy-voting guidelines are not particularly prescriptive relating to Pendal's stance on environmental or social issues. Furthermore, the firm avoids naming specific companies in engagement reports; doing so is a common practice among leading ESG firms.

Perpetual | Michael Malseed | 1 February 2022

Perpetual Australia earns a Morningstar ESG Commitment Level of Basic.

Perpetual Australia earns a Morningstar ESG Commitment Level of Basic with limited application of ESG criteria outside of a small number of ESG intentional strategies. Separately, the acquired businesses of Barrow Hanley Mewhinney & Strauss and Trillium Asset Management have their own level of ESG integration, which is not included in this assessment.

Only a small proportion of Perpetual's Australian assets under management are classified as ESG-intentional as defined by Morningstar. The firm has broad ESG policies in place to ensure minimum standards are met across all strategies; however, these are not as extensive or prescriptive as more-advanced peers.

Perpetual's overarching investment philosophy centers around quality and value. Governance is carefully scrutinized when assessing an investment's quality, but when it comes to non-ESG-focused strategies, social and environmental factors are considered only to the extent they pose a material valuation risk. This occasionally leads to holdings that rate poorly on traditional ESG criteria, provided the manager believes they are attractively priced.

In Australia, the firm has modest ESG resourcing. Richard Morris has been head of responsible investments since 2012, and he hired a supporting analyst in early 2020. This is a small team, particularly given the size of the Perpetual group. While stacking up reasonably in terms of size and experience against Australian peers, it continues to lag the global peer group. It demonstrates a reasonable commitment relative to Australian peers.

Perpetual is an active and engaged shareholder, but it has historically focused on shareholder value creation and preservation, rather than environmental or social concerns. While its proxy-voting record is publicly available, voting rationales are not disclosed in detail, even for contentious resolutions, which falls short of best practice. Overall, Perpetual has some positive attributes, but a limited approach to ESG integration across all strategies holds it back relative to peers.

Pictet Asset Management | Natalia Wolfstetter | 1 March 2022

A large part of the firm's lineup lends itself well to sustainable investing, but the broader firm still has some way to go.

Pictet Asset Management has a high share of assets in thematic strategies with compelling sustainability credentials, but we believe its decentralized approach has some blind spots. In combination with the modest size and impact of central ESG resources and nascent engagement efforts, this keeps the firm's ESG Commitment Level at Basic.

As of September 2021, Pictet AM has classified a large share of assets as Article 8 (40%) and 9 (22%) under SFDR, mainly thanks to its large thematic franchise, which accounts for two thirds of assets. That said, the firm has formalized its efforts in the ESG arena only in the last couple of years, with sustainable investing being included explicitly among the strategic priorities of Pictet Group and the aim to fully integrate ESG factors and active ownership into all investment processes by 2025. The firm follows a decentralized approach to ESG integration, whereby it expects its investment teams to fully own ESG research, whereas central ESG resources are deliberately kept small, and their main focus is on active ownership activities.

The members of the seven-member central ESG team are well-experienced (mostly in stewardship-related topics), and the firm has appointed 50 "ESG Champions" in 2020 to lead ESG activities across different functions. The thematic team will also add further headcount to support engagement activities. Still, it will take time for all investment teams to become fully self-sufficient in ESG terms, and because of light resourcing, the central ESG team may not be able to offer as much support as required. ESG thought leadership is another area that could benefit from more resourcing.

Oversight on funds' ESG positioning is provided by the Investment Risk & Performance team, which can challenge portfolio managers on holdings with high ESG risk during biannual quality reviews. The firm uses a wide variety of ESG data sources, which feed into its proprietary "ESG Scorecard," a system used to flag the ESG risk of corporate issuers. It serves as a prompt for investment teams to develop their own assessment of issuers that are deemed high risk. Except for firmwide exclusions, which vary depending on the ESG profile of the fund, investment teams retain a lot of discretion to manage ESG risks as they see fit, and they can come to different conclusions on high-risk names, with the potential for inconsistencies across strategies managed by different teams.

The central ESG team, however, ensures that the firm has one voice when it comes to active ownership. The firm's proxy-voting activities are well-established, and it has often supported ESG-related resolutions, but most engagements are still done through a service provider, though the firm is ramping up its own engagement activities. Hence, it is still too early to evaluate their effectiveness. The firm could further improve on transparency and reporting, both with regard to active ownership and the disclosure of ESG metrics.

Pimco | Mara Dobrescu, CFA | 17 November 2020
Pimco earns a Morningstar ESG Commitment Level of Basic.

Pimco has made strides ramping up its ESG effort and carries a Basic Morningstar ESG Commitment Level.

Pimco has actively engaged with numerous ESG organizations and consortiums in recent years, but its efforts expanded in 2016 when the firm launched its ESG initiative. That included the buildout of an ESG team led by senior leaders, including CIO of US core strategies Scott Mather and global head of credit research Christian Stracke. That group has a small, dedicated investment staff, but the day-to-day work of judging and engaging with individual bond issuers, as well as buying and selling based on ESG criteria, falls to 65-plus analysts and scores of portfolio managers across bond market sectors, including securitized products, municipals bonds, corporate credit, sovereign, and green/sustainable bonds.

In addition to typical investment management decisions, ESG considerations include ESG-related business practices, global sustainability norms, and receptivity to engagement. The effort is relatively new though. Pimco does not employ exclusions across assets under its management, and strategies intentionally designed to hew to ESG principles are still a fraction of its business.

Given its hard-charging investment culture, it's difficult to imagine the firm's identity becoming synonymous with ESG, but Pimco has demonstrated a willingness to invest the resources necessary to build credibility in the space. In addition to the buildout of its ESG leadership and staff, the firm has developed its own proprietary analytical framework and draws on the research provided by numerous external ESG sources.

Unlike equities, bonds don't have ownership rights, so bond-focused asset managers have fewer tools to influence issuers. Large debtholders can wield power, though, and Pimco has demonstrated a willingness to actively engage with issuers in efforts to improve their adherence to ESG principles. The firm reported having engaged in-depth with more than 175 issuers in 2019, with the majority of those efforts focused on environmental risks and so-called green bond related frameworks. Pimco is also a member of numerous external organizations and coalitions actively involved in policy advocacy.

Putnam | Alyssa Stankiewicz | 1 September 2021
Two ESG-focused funds stand out, but integration is lacking in the broader firm.

Putnam showed some early commitment to environmental, social, and governance investing by signing the United Nations-backed Principles for Responsible Investment in April 2011, but the firm's initiatives got a kickstart when Katherine Collins was hired as the head of sustainable investing in May 2017. The firm earns a Morningstar ESG Commitment Level of Basic.

Since 2017, Collins has built out a seven-person team of ESG experts within the firm. Unlike many firms that choose to form a separate ESG research team, these individuals are intentionally integrated with the equity team. This approach may lead to more organic adoption of ESG principles within the equity team, but it also limits the group's ability to develop ESG frameworks in other asset classes. Furthermore, Collins is the only member of this team with more than five years' experience in sustainable investing.

In March 2018, Putnam renamed and repurposed two equity strategies to adopt ESG mandates: Putnam Sustainable Leaders PNOPX and Putnam Sustainable Future PMVYX. These funds use a proprietary, materiality-driven ESG approach to security selection. While these initiatives are promising, the firm's ESG efforts in other asset classes are more nascent.

Over the past few years, Putnam has joined prominent investor coalitions including the Task Force on Climate-Related Financial Disclosures and the Climate Disclosure Project, and the firm became an Alliance member of the Sustainable Accounting Standards Board. While these advocacy initiatives support adoption of ESG investing through the industry, Putnam has some room for improvement in its own active ownership practices. Notably, the firm's disclosure practices around company engagement and the rationale behind proxy-voting strategies are quite limited.

State Street Global Advisors | Daniel Sotiroff | 1 June 2022
Small but positive improvements.

SSGA's ESG effort took some small steps in the right direction over the past year, but hurdles to a stronger ESG program remain in place. It maintains an ESG Commitment Level of Basic.

SSGA's support for key ESG shareholder resolutions increased to more than 70% in 2021, compared with roughly 50% support in 2020. Board diversity and climate risk disclosures rank among the major initiatives driving SSGA's proxy-voting strategy across all portfolio companies. It also signed on to the Net Zero Asset Managers Initiative and has undertaken efforts to improve its own climate footprint and the diversity of its workforce.

The firm's stewardship team uses its in-house R-factor tool to evaluate ESG risks unique to each portfolio company. This is a distinct and solid approach that helps the team prioritize certain engagements over others to make the most efficient use of its effort.

The stewardship team is integrated across multiple business units and continues to grow. It favors dialogue with companies to drive positive change, but it largely limits its effort to engagements and proxy voting. It does not take a more activist stance—such as initiating shareholder proposals — to push for change, which limits the strength of SSGA's ESG agenda.

Most of the assets SSGA oversees track indexes that do not have an ESG focus, making it a permanent source of capital to many publicly traded companies that don't have strong ESG profiles, such as those in the oil and gas industry. That means it often cannot take certain actions, such as divesting, when portfolio companies don't comply with its requests.

While most of the index-tracking strategies that SSGA offers do not have an ESG focus, it has started to offer more in the major markets that it serves, including the United States and Europe. Additionally, the firm has made efforts to integrate financially material ESG analysis across its actively managed strategies, but these represent about 15% of the firm's assets under management, so the impact likely won't be big compared with the AUM opportunity set that it oversees. Despite efforts to strengthen its ESG credentials, SSGA's mix of assets adds some enduring challenges to its ESG program.

T. Rowe Price | Katie Rushkewicz Reichart, CFA | 10 May 2021
T. Rowe Price earns a Morningstar ESG Commitment Level of Basic.

T. Rowe Price has put significant resources behind its developing environmental, social, and governance efforts, earning it a Morningstar ESG Commitment Level of Basic.

While the firm signed the United Nations-supported Principles for Responsible Investment in 2010, its ESG push ramped up in 2017 with the hiring of responsible investing head Maria Elena Drew. She built out a team of ESG specialists and helped develop a thorough proprietary ESG research system, which is integrated with the firm's central research system and readily available to all T. Rowe analysts and portfolio managers across asset classes.

In staying true to T. Rowe's investment culture, managers have full authority to use ESG data as they see fit alongside traditional financial data. However, outside of T. Rowes handful of ESG strategies, purposeful inclusion of ESG considerations and exclusion of bad actors are not required, and there is no formal portfolio monitoring system in place.

T. Rowe has long focused on corporate governance issues as part of its regular research process, but its efforts on the environmental and social fronts are still emerging. It has had dedicated governance-related resources since 2007 and votes all its proxies, though its guidelines on environmental and social issues are vague. The firm does not take broad thematic positions on ESG matters, but the ESG team flags key issues on a company-specific basis, with analysts, managers, and ESG specialists all potentially involved in engagement discussions with company management. T. Rowe prefers to engage with companies alone given its historically strong corporate access, though it is a member of various global ESG advocacy groups. However, the firm has not led collaborative engagements with other investors.

The firm's efforts continue to evolve. It already discloses ESG metrics for ESG-focused funds and plans to improve disclosure for conventional funds as well. T. Rowe is also looking to enhance its proxy-voting reporting, with more detail around its voting rationale in certain instances.

Troy Asset Management | Tom Mills | 1 May 2022
Some positives but ESG disclosure is lacking.

While Troy embraces ESG research in the investment process, ESG-related resources and disclosure remain behind more- advanced industry peers. This results in a Morningstar ESG Commitment Level of Basic.

Troy signed the United Nations-supported Principles for Responsible Investment in 2016 and appointed a head of responsible investment, Hugo Ure, from within the ranks in 2018. Ure leads the firm's responsible investment and stewardship policies, and the systems and processes supporting them—duties he combines with fund management responsibilities. Unlike some peers who have set up central responsible investment teams independent from portfolio managers, Troy's 14-member investment team are collectively responsible for ESG analysis and engagement, in addition to all portfolio management activities. This streamlines integration of ESG considerations into the investment process, but it also puts more onus on the investment team to keep up with evolving ESG best practice.

Troy's tight-knit investment team works collegiately and uses a single investment process to support a handful of strategies, picking from a relatively small central universe of stocks that meet its investment criteria. Rather than targeting dual financial and sustainable mandates, Troy's investment process integrates ESG criteria directly into the long-term and quality-focused assessment of companies. Apart from its ethically screened funds, Troy applies no hard-and-fast ESG exclusions across its funds. Troy shares ESG research insights and explains its thinking in regular responsible investment reports, but fund-level ESG metrics aren't routinely disclosed to fund investors—something we would welcome.

Troy has traditionally focused its engagement activities on corporate governance. In 2021, however, Troy signed the Net Zero Asset Managers initiative, which spurred increased collaborative engagement on environmental issues and growing support for shareholder resolutions. The firm has room to improve its transparency in proxy voting and engagement priorities and records. For example, Troy doesn't publish explicit and detailed environmental and social proxy-voting guidelines, preferring to weigh each situation case-by-case. Similarly, rather than providing full voting records, it provides details on only a selection of votes deemed significant. Reporting on engagement activities is also limited to summary statistics.

Veritas Asset Management | Lena Tsymbaluk | 1 January 2022
The group's resources and ESG incorporation level seem reasonable for a small investment boutique.

Veritas Asset Management LLP's high-quality investment strategy is naturally aligned with ESG principles. However, it lags peers in key areas, including the depth of ESG resources and disclosure of ESG metrics. This results in a Morningstar ESG Commitment Level of Basic.

Sustainability has been core to Veritas' investment approach for many years through its focus on high-quality companies and sustainable free cash flows. The emphasis has historically been on shareholder value, but the firm believes that environmental and social factors are interwoven with a firm's broad strategy and governance structure. ESG considerations are thus integrated into the fundamental assessment of business risk conducted by research analysts. In terms of exclusions, because of sustainability risk factors, the teams avoid companies related to oil, coal, most utilities, steel, cement, and agriculture.

The group's ESG team is adequately sized for an investment boutique of GBP 24 billion in assets under management. The central ESG team was formed in 2017 and consists of three dedicated professionals, though they are still relatively new to the field. This team monitors fundamental ESG research and company engagements, activities that are primarily handled by the broader analyst team. In evaluating the ESG risks of individual companies, Veritas primarily relies on its own proprietary research rather than using third-party ESG data.

Veritas signed the United Nations-backed Principles for Responsible Investment relatively late, in July 2017. But the group also endorses key climate change-related initiatives such as the Task Force on Climate-related Financial Disclosures and Transition Pathway Initiative and has joined the Net Zero Asset Managers initiative.

On the engagement front, the firm is an active and engaged owner and believes it has a part to play in encouraging constructive behavior through dialogue with portfolio companies. Each engagement has a clear objective and typically involves writing to the company or speaking with senior management. If engagement fails, the group may escalate by choosing to vote against management or exit the position. Areas of improvement include deeper ESG resources as well as better transparency into the funds' ESG characteristics and the firm's proxy-voting activities.

Wellington Management | Elizabeth Foos | 17 November 2020
Wellington's ESG effort is off to a good start but still has some way to go.

Wellington Management's ESG resources have grown, but the impact on portfolio management has yet to be demonstrated. The firm earns a Morningstar ESG Commitment Level of Basic.

The firm's sustainable effort is maturing. Wellington created a dedicated ESG team in 2011 and embedded ESG data and analysis within its central research group in 2015. As of mid-2020, the firm's sustainable investment team counts 22 members across climate research, sustainability research, and strategy. The team includes a nine-member ESG Research Group. More than 7,000 companies are assigned a quantitatively derived ESG rating using a proprietary algorithm that leverages third-party data. ESG analysts specialize by industry, contribute insights to both equity and fixed-income strategies, author white papers, and use internal ratings as a starting point for further research and engagement.

Wellington is dedicated to building out its ESG effort further but notes that it shouldn't be expected to shift focus in grand scale. The firm's boutique investment model allows varied investment teams flexibility regarding philosophy while benefiting from the vast pool of central research analysts and proprietary tools. ESG research is primarily used as an additional tool by managers and is consumed to varying degrees based on investment objectives. The firm offers ESG-focused strategies and has a stand-alone Impact Investing capability, yet they represent a modest amount of assets under management. The firm also collaborates extensively with Woodwell Climate Research Center to assess the impact of climate change on the markets.

Company ESG evaluations, engagement records, and proxy-voting notes are housed in Wellington's internal research platform and integrated into investment teams' workflow and risk calculations. That said, it is difficult to measure the impact these factors have on portfolio construction. Disclosure of ESG metrics at the strategy level is limited. The firm has established proxy-voting guidelines and an active engagement record: Each year, Wellington participates in more than 10,000 meetings with company management teams, including roughly 400 ESG-focused engagements.

Low

Allan Gray Australia | Chris Tate, CFA | 1 January 2022

Still a work in process for ESG to become front of investment mind.

Allan Gray Australia is noted for its engagement on governance grounds, but other ESG facets need improvement to be considered on a higher standing. It is assigned a Morningstar ESG Commitment Level of Low.

Allan Gray became a signatory to the United Nations-backed Principles for Responsible Investment in 2018. This is late compared with rivals. The firm's ESG integration is expressed through an assessment of the sustainability of a company's cash flows from an environment and social perspective, as well as scrutiny of governance issues when determining intrinsic value. This determination is formed largely subjectively through a company's discount rate or stranded asset values, as no ESG scoring framework is in place. Similarly, no ESG exclusions are applied firmwide, unlike many local competitors who exclude tobacco at a minimum. The firm's contrarian investment approach doesn't automatically lend itself to sustainable investing, but further advancements are required to warrant greater regard for ESG's integration into the process compared with fundamental equity peers.

Allan Gray has no dedicated ESG personnel, nor is the use of external ESG data providers adopted. Instead, portfolio managers Simon Mawhinney and Suhas Nayak and the firm's analyst team are tasked with ESG responsibilities as part of broader qualitative investment due diligence, required to be presented at the firm's Policy Group Meetings. While quite learned with their awareness of ESG issues, identifiable portfolio impacts of this knowledge are difficult to discern.

While Allan Gray has some public recognition for its engagement, this activity is primarily focused on governance issues despite including some environmental and social matters. ESG-specific reporting and transparency is limited, with room for more public disclosure, but an internal register records all company interactions. The firm publishes an annual Statement of Responsible Investing that lists high-level detail of engagement and proxy voting. A proxy-voting policy is maintained by the internal Legal and Compliance team, though these guidelines are brief without specific ESG references.

American Century Investments | Greg Carlson | 17 November 2020

A work in progress.

American Century is working to incorporate ESG standards into its investment processes, but these efforts are in their early stages. It earns a Morningstar ESG Commitment Level of Low.

American Century is making strides to prioritize ESG incorporation. However, it's behind some peers. The firm signed the United Nations-supported Principles for Responsible Investment in 2018, while leaders in the field signed more than a decade ago. The firm has an ESG specialist team, but with five members, it is modestly resourced relative to the firm's size and breadth of strategies. The members are also fairly new in their roles; leader Guillaume Mascotto joined the firm in 2017, and the other members were hired starting in 2018.

The firm is building a framework for ESG integration. Portfolio managers have access to ESG data from the ESG team; in some cases, the team encourages and facilitates managers' use of its ESG scores. The team scores firms on criteria such as corporate governance, environmental and social issues, and risk. The firm has only one ESG-focused fund in the United States, American Century Sustainable Equity. American Century Focused Dynamic Growth, after a successful strategy revamp several years ago, now has one ESG analyst monitoring its holdings. But most managers are not obligated to use ESG data in a standardized way.

American Century's portfolio managers tend to be active owners, but the active ownership process isn't formalized. There is no explicit policy for engaging with company managements about ESG-related issues, though the managers do talk to managements about such issues and monitor corporate actions and results. While the firm discloses its proxy votes, stated voting guidelines are vague and no rationale is provided for the votes.

American Century has some history with ESG. Its target-date fund series launched in 2006 with underlying funds that all excluded tobacco-related firms, though the series now owns a couple of strategies without that restriction. Also, close to half of the firm is owned by a cancer research center founded by American Century founder James Stowers, so a significant chunk of the firm's revenues fund that entity. However, that arrangement doesn't impact the funds' holdings.

Antipodes Partners | Ross MacMillan, CA | 1 August 2022
Antipodes is working to develop and incorporate ESG into its culture.

Antipodes Partners is a sound fund-management business, but environmental, social, and governance procedures and disclosure remain a work-in-progress. Antipodes is still behind global best practices in ESG investing, resulting in a Morningstar ESG Commitment Level of Low.

Antipodes considers ESG research to be an important component of risk assessment but shies away from targeting sustainable outcomes directly in its strategies. In 2017, Antipodes began formally incorporating third-party ESG scores into its investment process as a key component of measuring a business' risk alongside traditional financial metrics. In 2020, Antipodes signed the United Nations-backed Principles of Responsible Investment and appointed a commodities investment analyst from within the firm to be the ESG specialist responsible for assessing ESG risk across prospective investments, together with the investment team. However, to keep pace with a rapidly evolving market, Antipodes needs to develop stronger ESG objectives, policies, and procedures. In addition, the breadth of Antipodes' investment strategies warrants a larger fulltime ESG specialist team and resources.

Antipodes engages with companies but mainly focuses on governance concerns more than environmental or social issues. While Antipodes will engage with companies, if the issue is significant, the firm will typically avoid the company or divest the stock from the portfolio. Furthermore, disclosure and transparency are lacking relative to global peers. Antipodes needs to make its full proxy voting, corporate engagement, and portfolio ESG metrics more readily and publicly available as proof of its overall ESG commitment. The firm has made some positive initial steps, but further progress to embed ESG considerations in investment strategies is now necessary.

Ariel Investments | David Carey | 1 May 2022
The firm's fledgling ESG efforts remain a work in progress.

Although Ariel continues to expand and formalize its ESG efforts across the firm, ESG considerations have minimal impact on investment decisions and portfolio construction. The firm receives a Morningstar ESG Commitment Level of Low.

As a minority-owned firm, Ariel has long been a leader in advocating for better corporate diversity practices and often engages with companies to hire directors with diverse backgrounds. In 2021, the firm launched its private-investment segment of the firm called Ariel Alternatives, which will invest in companies that are or can be transformed into certified minority-owned business enterprises.

While the firm has thus demonstrated a commitment to certain social causes, the team is unlikely to eschew investing in a company solely because of ESG concerns. Rather, it relies first and foremost on the firm's signature value-oriented investment process. The firm's work to formally integrate ESG research into its investment process is still nascent. In 2021, Ariel's international-investing team, which runs roughly half of the firm's assets, started to consider financially material ESG risks in its valuation models. This follows a similar effort by the firm's domestic-equity team, which began one year prior in 2020. Furthermore, just three ESG analysts—two of whom have been with Ariel for fewer than three years— are in charge of supporting this ESG research, a broad global remit for a slim team.

Ariel has made some progress to provide transparency into its ESG practices, but room for improvement remains. The firm published its second ESG Annual Report in 2021, but this report lacks the depth and detail provided by some competitors. Furthermore, Ariel could do a better job providing ESG metrics for individual funds and publishing information about its proxy-voting policy and vote rationales. All told, the firm's efforts fall short compared with peers'

Artemis | Teodor Dilov | 1 March 2022
Some foundations have been established, but the overall framework needs further enhancement.

Although ESG is not an entirely new endeavor for Artemis, the company started building its in-house ESG capabilities and structure relatively recently. Despite the firm demonstrating its focus on further development in this area, the current overall resources and approach seem light relative to peers, leading to a Morningstar ESG Commitment Level of Low.

The company's philosophy of embracing ESG into its culture and product offering is for now purely based on working with individual portfolio managers to incorporate ESG factors as a fundamental part of their investment process. There is no firmwide exclusions policy. Oversight on funds' ESG positioning is provided by the investment risk team via the quarterly investment risk overview. The risk and investment teams can also call on the central stewardship team, which consists of two experienced professionals, Antonia Sterling and Inez Oliver, but their impact on final investment decisions is limited. In addition, there is no specialist ESG team that can provide further support or company-level ESG analysis. Artemis has built internal tools that use external data mostly from MSCI but also Sustainalytics, TruValue, and Bloomberg. It monitors the underlying holdings of all strategies and can raise concerns with the respective fund managers, but the company's policy is to maintain the independence of its individual franchises.

In terms of reporting, Artemis has synchronized the ESG language used across the company and developed its own stamps system that discloses the approach taken on a fund level. They are published on fund fact sheets, but the criteria for receiving a specific stamp seem rather subjective. Almost all funds receive the "ESG Integration" stamp, while the other three categories – "Impact Investing," "Sustainable Investing," and "Negative Screening" – are very limited across the entire product offering. The Stewardship team, which is also in charge of building the company's voting policy, has made good effort in disclosing the managers' voting record through a report that is publicly available. However, thought leadership is another area that needs more attention.

Overall, we note that the company recognizes the importance of ESG by being a United Nations-backed Principles for Responsible Investment signatory since 2015 and joining a number of initiatives such as the Net Zero Asset Managers initiative. However, despite its plans for further enhancement of the ESG function, the lack of dedicated resources and structure is notable compared with peer fund groups.

Baird Asset Management | Gabriel Denis | 10 May 2021

Baird earns a Morningstar ESG Commitment Level of Low.

Baird does not aim to be an environmental, social, and governance focused manager. Its rudimentary efforts in the field support a Morningstar ESG Commitment Level of Low.

ESG is, at best, a peripheral consideration for the firm. Baird does not have a distinct ESG research or engagement team and publishes next to no materials on the subject. With the exception of funds investing along Catholic principles, the firm does not offer any ESG-intentional strategies. ESG considerations, backed by data streams from a handful of providers including ISS and Bloomberg, do play a part in how the research team evaluate issuers, but only if ESG material issues have a direct impact upon the cash flows or creditworthiness of the issuer. There are no ESG-specific targets against which the portfolio managers run their portfolios, nor do distinct ESG metrics factor into their (or the broader analyst team's) performance reviews or compensation. Furthermore, the work of maintaining these ESG resources falls upon the shoulders of analysts and portfolio managers who already have traditional investing responsibilities to attend to, making ESG integration a secondary objective.

Partially owing to approximately 95% of the firm’s AUM being invested in fixed-income assets, Baird's proxy-voting and engagement efforts are very limited. While the firm has a proxy-voting policy, the fixed-income team rarely invests in issues with voting rights and does not have an ESG-linked engagement policy, limiting the team's contact with issuers to traditional price discovery and due-diligence matters. The equity team does appear to have an active ESG-linked voting record, but its small footprint limits its impact on the firm's overall efforts. Finally, Baird does not formally link itself to any widespread investor advocacy groups, nor has it signed on to the United Nations-supported Principles for Responsible Investment.

BetaShares | Simon Scott | 17 November 2020
BetaShares: A product manager with ESG strategies.

Offering a smattering of ESG products among a vast array of products, BetaShares warrants a Low Morningstar ESG Commitment Level.

BetaShares is one of Australia’s fastest-growing providers of ETFs and other funds traded on the Australian Stock Exchange. Managing over AUD13 billion in assets, the firm offers a number of ESG intentional ETFs within Australian and global equities and fixed-income asset classes. Of the more than 60 strategies offered by BetaShares, two of the four ESG intentional strategies rank among the top 10 in terms of assets under management.

It is fair to say that under our ESG Commitment Level methodology, the firm structure of BetaShares renders a higher assessment difficult to achieve. It does not impose any ESG principles, philosophies, or policies at the firm level or across the majority of its product range. Nevertheless, the four specific ESG ETF strategies, which track custom indexes, do contain reasonable ESG characteristics. Most of the screening within these ETFs are in line with core ESG principles and cover many of the usual suspects including fossil fuels, gambling, tobacco, and environmental damage.

While BetaShares can be commended for bringing product to meet a growing demand, a higher ESG Commitment Level assessment is not warranted at this stage.

Colonial First State | Tim Wong | 1 March 2022
A relatively light-touch approach to applying ESG principles.

Colonial First State’s tendency to give free rein to its subadvisors caps the extent to which its ESG principles impact portfolios. It consequently receives a Morningstar ESG Commitment Level of Low.

Colonial First State primarily focuses on selecting investment managers to construct diversified portfolios across asset classes. Firmwide exclusions of tobacco and controversial weapons are in place, as is often the case in Australia, and it has in-house ESG specialists to support the investment team's understanding of the ESG credentials of prospective submanagers.

The firm allows its submanagers discretion to invest as they see fit, with no bias toward ESG-focused strategies. Historically, this has included letting submanagers vote on proxies without CFS' involvement. This will change somewhat in future, as CFS appointed Federated Hermes EOS in 2021 to provide recommendations on proxy votes and engage with non-Australian equities, though submanagers in Australian equities will retain these responsibilities. Meanwhile, public disclosure of these activities as well as publication of research on pertinent ESG matters is uneven and could be improved.

The internal Responsible Investments team has been led by Guneet Rana since mid-2020. Rana is joined by three staffers, each of whom came aboard after 2018, with this being their first dedicated ESG role in each instance. As such, the cumulative expertise on ESG matters is at the lower end among the industry. They are required to sign off on the suitability of how the prospective submanagers incorporate ESG principles into their investment approach, but their integration with the investment team appears modest. Notably, the ESG team doesn't attend the quarterly reviews conducted by the CFS investment team with their submanagers.

All in all, CFS' efforts on ESG matters are at the more modest end.

Dimensional | Daniel Sotiroff | 1 February 2022
A light touch.

Dimensional Fund Advisors has taken a measured approach to environmental, social, and governance issues, and it does not have a strong focus on these topics compared with many of its peers. It earns a Morningstar ESG Commitment Level of Low.

Dimensional's ESG perspective is rooted in its broader investment philosophy of market efficiency. The firm believes that financially relevant information tied to environmental and social factors should be reflected in stock and bond prices, meaning ESG considerations don't provide much of an advantage in investment decisions.

That perspective underpins Dimensional's slower adoption of ESG-focused investing, but it doesn't mean the firm completely ignores ESG-related issues. Dimensional sees active ownership as an effective risk management tool, and the stewardship team engages in issues that pose financial risks to client portfolios. In line with the idea that markets can effectively price risks, it also advocates for disclosure of financially relevant information tied to key environmental and social issues.

Dimensional conducted 640 engagements during the 2020 proxy season. Governance issues related to executive compensation and board composition represented the biggest portion of the effort. Portfolio companies largely controlled by a small number of powerful shareholders, or those with potentially fraudulent financials, may become engagement targets or may be temporarily excluded from Dimensional's funds. But the number of portfolio companies excluded from Dimensional's portfolios represent a small fraction—about 1%—of the thousands it has stakes in.

The firm has cautiously integrated ESG factors into its strategies. Environmental and social issues are not considered in most of its current lineup. Instead, it offers sustainability- and socially focused mutual funds for clients that want to align their investments with their values. These strategies do not appear to be a major priority and represent less than 5% of the firm's assets under management.

Dodge & Cox | Tony Thomas, Ph.D. | 1 February 2022
Still early.

Dodge & Cox is an exemplary asset manager in many ways, but its nascent ESG efforts warrant a Morningstar ESG Commitment Level of Low.

The firm, founded in 1930, is just beginning to build out its ESG resources. Even though it signed the United Nations-backed Principles for Responsible Investment in 2012, it named its first dedicated ESG analyst only in January 2020, but she left for business school in mid-2021. Leadership then appointed Tory Sims, from the firm's client services side, to head up ESG work. Like her predecessor, Sims is working with Dodge & Cox's new director of research, Steven Voorhis, to strengthen analysts' access to—and consideration of—ESG data, including new carbon and climate-impact metrics it began sourcing from a third-party provider in 2021.

Despite growing access to data, ESG analysis plays only a peripheral role in the firm's fundamental investment research. The analysts' primary interest is valuation—and they consider ESG factors only insofar as they affect a company's worth. A simple ESG checklist is one part of their much broader research effort.

The central tenet of Dodge & Cox's active ownership strategy is to vote in what it believes is the best interests of its fundholders, with ESG matters considered through that lens on a case-by-case basis. The firm has no formal engagement policy. As a major shareholder, it could flex muscle on ESG matters, but it has not taken a consistent stance on proposals on such issues as climate change or human rights.

As such, the storied firm has a long way to go before ESG plays a significant role in its investment processes or stands out relative to peers. It has no ESG-dedicated security analysts or ESG-focused strategies. Dodge & Cox is starting to develop its ESG capabilities, but they won't shift the firm's focus away from its long-standing, valuation-driven investment style anytime soon.

Eastspring Investments | Morningstar Manager Research | 1 February 2022
Still early in its ESG journey.

Eastspring has been making efforts to raise the importance of ESG within the firm in recent years but at its current state warrants a Morningstar ESG Commitment Level of Low.

Eastspring's ESG aspirations are relatively recent as evidenced by signing the United Nations-backed Principles for Responsible Investment in 2018 and launching its first ESG-focused fund in 2019. The firm boosted its centralized ESG team by hiring Stuart Wilson as the new head of sustainability in January 2022, adding to the existing duo. While the new appointment reflects the firm's commitment to its ESG build-out, its team of three is small compared with other asset managers.

The firm's investment professionals have access to a single provider of ESG data, the use of which by portfolio managers seems limited. There is no harmonized ESG scoring system across teams since each team develops its own approach to ESG considerations, rendering ESG integration as highly flexible. To incentivize investment personnel along the ESG-integration journey, the firm's management has assigned ESG as a component of its variable remuneration. Its effectiveness in encouraging greater ESG integration is yet to be proved, and it will be a challenge to measure, given that there is no formal or systematic monitoring of ESG integration.

Both proxy voting and engagement policies broadly reference ESG issues without clear guidelines. Proxy voting is decentralized, with investment teams taking ownership. Investment teams can draw on third-party provider ISS for advice. While voting participation is high, support for ESG resolutions does not stand out. Climate change mitigation is a priority for Eastspring, where portfolio managers engage directly with company management to identify financially material risks to the business. Besides direct dialogue, Eastspring occasionally also escalates engagement by collaborating with other investors, for example via the Climate Action 100+ initiative.

Overall, Eastspring is still early in its ESG journey, and ESG has yet to become an impactful factor in the firm's investment processes.

Fidelity Investments | Robby Greengold, CFA | 1 April 2022
Fidelity's ESG efforts are tough to detect.

In recent years, Fidelity Investments has contributed heavily to its investment teams' ability to scrutinize companies' environmental, social, and governance issues and to offer new products surrounding that research. Its business leaders consider its advancements in this arena to be a strategic priority, and its investment leaders have thoughtfully developed frameworks to inform portfolio managers' and analysts' thinking on sustainability issues. But the firm receives an ESG Commitment Level of Low because it has provided little public clarity about its expectations of current or prospective portfolio companies with respect to their ESG priorities and it has not shared ESG metrics on its portfolios with investors.

Fidelity formalized its ESG research efforts in 2017, when it signed the United Nations-supported Principles for Responsible Investment and created a centralized team of sustainability specialists. The firm has significantly bolstered that team since 2019 by recruiting a sizable cohort of analysts (including some with ample sustainable-investing experience) and new leaders to help shepherd their research. By late 2021, it had 10 analysts with sector-specific coverage and ESG heads in charge of specific asset classes, including equity and fixed income.

Leveraging sustainability data from third-party vendors and Fidelity’s direct discussions with the executives of its portfolio companies, the ESG analysts collaborate with Fidelity’s sprawling teams of fundamental research analysts to assign proprietary ESG ratings to a large portion of the firm’s investable universe. It is a sophisticated framework and scalable: Fidelity has recently expanded it to encompass noncorporate fixed-income instruments, such as asset-backed securities and municipal bonds, whose greater complexity and scarcer ESG data make them tougher for asset managers to assess through a sustainability lens. Deep quantitative resources help make it feasible for Fidelity.

But it is hard for investors to know for sure how the firm’s ESG resources impact its funds or the thinking of its portfolio managers. Fidelity provides no data that might describe its strategies’ ESG profiles, while some peers offer absolute ESG metrics along with peer-relative comparisons. Few of its strategies use well-defined criteria to bar ESG laggards, and those that do have in place basic, timid exclusions. It provides only vague guidelines for how it will vote proxies on key ESG resolutions, and its voting record does not show much support for them.

Its inaugural stewardship report, released in 2021, marked a significant step toward revealing more about its ESG philosophy and processes, but it holds back details surrounding its engagement with corporate executives. With greater illumination of how it urges for specific sustainability outcomes, it could show greater commitment to ESG.

Franklin Templeton | Morningstar Manager Research | 10 May 2021
Early days.

Franklin Templeton is forming new high-level plans to address environmental, social, and governance issues. The firm earns a Morningstar ESG Commitment Level of Low.

Franklin formally started its sustainable investing journey in 2013 when it signed the United Nations-supported Principles for Responsible Investment and Julie Moret became the head of the centralized ESG team, which would eventually count a few dedicated analysts. That said, the firm has recently made some changes and appears to be forging its overall ESG philosophy against the backdrop of its 2020 acquisition of Legg Mason, which included several autonomous investment boutiques. The firm created a new stewardship and sustainability council in mid-March 2021 that will set a common research agenda in addition to tackling data requirements, transparency, and reporting for the firm’s 19 distinct investment teams.

David Sheasby, head of stewardship and ESG at affiliate Martin Currie since 2015, and David Zahn, head of European fixed income within Franklin Templeton's fixed-income group, are leading the council. They plan to add one member to the council from each of the affiliates; replace Moret, who recently departed; and add another dedicated ESG analyst to this small, dedicated team. In the near term, the council is focusing on amalgamating ESG information and making it more easily available to the teams. The dedicated ESG team will continue its mission to help each affiliate build out custom ESG models and frameworks, though portfolio managers are free to use this information as they see fit and there is no formal system for reporting how they use the data to the ESG team.

Franklin has mostly used a light touch when it comes to ESG and engagement issues, though the council may work toward more central guidance and tracking on engagement and proxy voting. While some investment boutiques, including Martin Currie, are further along in integrating ESG into their investment processes, Franklin overall remains in the early stages relative to competitors.

Fundsmith | Morningstar Manager Research | 10 May 2021
Fundsmith earns a Morningstar ESG Commitment Level of Low.

Fundsmith LLP, while displaying strong traditional governance capabilities across the firm, has not adopted a wider environmental, social, and governance stance, earning a Morningstar ESG Commitment Level of Low.

The relatively young firm, founded by Terry Smith in 2010, has adopted a sustainability mindset from its inception. Sustainability, however, in the context of Fundsmith, relates to the ability of businesses to sustain high returns on the capital that investors have provided them. While ESG issues are incorporated into the investment process, the focus is put on governance, which relates primarily to traditional aspects, such as business strategy and product innovation and does not translate to the level of environmental and social engagement.

The firm offers a sustainable mandate, but this primarily adopts a negative screen rather than actively seeking out ESG criteria. The strategy also has a small impact on the firmwide ESG assessment given it constitutes less than 2% of assets under management.

Fundsmith's ESG efforts are limited compared with peers. The firm is considering hiring an additional stewardship analyst, which will bring the number of dedicated ESG analysts up to two. The ESG team, headed by Tom Boles (who maintains additional responsibilities), will be releasing additional ESG metrics sometime in 2021; this will serve as the litmus test of the firm's detailed reporting efforts. Fundsmith is a signatory of the United Nations-supported Principles for Responsible Investment but is not affiliated with any other ESG-related bodies or groups. It prefers not to take a vocal stance so is not considered an ESG advocate.

While its long-term investing approach and focus on high-quality businesses have served investors well in terms of financial performance, Fundsmith has a long way to go on the wider ESG perspectives. A greater commitment to ESG would include emphasis on the environmental and social aspects of ESG and governance issues extended.

Greencape Capital | Steven Le | 1 December 2021
The firm's ESG efforts have room to grow.

Greencape Capital boasts a talented team and robust investment approach but gives little attention to environmental, social, and governance concerns, resulting in a Morningstar ESG Commitment Level of Low.

Greencape holds that ESG factors are material to assessing the risk and long-term value of investable companies, but ESG analysis is just one component of the overall valuation process. The firm excludes certain controversial activities, such as small arms and pornography, from its opportunity set, and the ESG policy states it considers matters such as climate change, modern slavery, and gender diversity. Still, the firm's main focus is on governance issues, including board structure and worker safety. Greencape signed the United Nations-supported Principles for Responsible Investment in 2009.

Greencape has limited ESG resources. The firm uses a combination of third-party ESG research/data providers. The team has developed a broad ESG understanding as part of its overall skill base, but no one on the team has deep ESG expertise or distinct specialties.

Greencape actively engages with company management and directors on ESG matters if the firm deems them financially material. The firm's engagement activities predominantly focus on governance issues, such as business durability, capital allocation, and executive remuneration structures. Greencape uses independent proxy advisor services as an input to its proxy-voting practices, but greater transparency into voting decisions on ESG issues would be welcomed.

Investors Mutual Limited | Morningstar Manager Research | 17 November 2020
Incorporation of ESG principles, but they aren't front and center.

Despite exhibiting some positive ESG features, the discretionary nature of ESG implementation across the firm results in Investors Mutual earning a Low Morningstar ESG Commitment Level.

IML doesn't purport to be an ESG-intentional manager, believing that a restriction in the investment universe would hamper the ability to deploy its investment process effectively. While some firmwide exclusions exist (such as tobacco, controversial weapons, and small arms), it is worth noting that IML's investable universe doesn't contain names with material exposure to these areas. The manager has also been a signatory of the United Nations-supported Principles for Responsible Investment for more than a decade but does not manage any ESG-specific strategies.

Analysts are required to compile a detailed ESG report on all holdings, and IML has a dedicated ESG coordinator, which is positive. However, when it comes to portfolio construction, ESG is implemented on a risk/return assessment, rather than the systematic screening out of companies. It is up to the relevant portfolio manager to determine whether any identified ESG contraventions disqualify ownership. This level of ESG incorporation lags that of more-intentional peers.

Investor activism has been a commendable feature at the firm, aiming to unlock additional investment value by resolving governance issues. Proxy-voting decisions are assisted by third-party research, and all equity holdings are voted on.

Overall, IML is reasonably ESG-conscious for a non-ESG specific firm, though it doesn't stack up as well relative to the ESG intentional cohort and otherwise has room for improvement.

Jamieson Coote Bonds | Tim Wong | 1 March 2022
Jamieson Coote Bonds is investing in its approach to ESG, though the overall impact is modest.

The efforts made by Jamieson Coote Bonds to integrate ESG into its investment process have a limited effect on end outcomes, which is why it attains a Morningstar ESG Commitment Level of Low.

Jamieson Coote Bonds focuses solely on government and government-related bonds across a handful of developed-markets countries, specifically Australia and G-7 nations. Sticking to high-grade, developed-markets government-related issuers can limit the potential for unwelcome ESG practices among portfolio holdings, though it also makes Jamieson Coote a small player in terms of influencing the actions of issuers. Given that reality, the shop's ESG-related engagement efforts revolve around understanding the appetite for issuance of green and other sustainability-linked bonds to inform its view of pricing among different instruments. The firm invests in green and sustainability-linked bonds, but it tends to avoid applying its own binding judgments on the use of proceeds to differentiate between securities.

The shop keeps tabs of the potential ESG risk of different sovereign issuers by capturing a range of ESG-related metrics from the largest companies listed in those markets. These metrics include (among others) greenhouse gas emissions intensity and gender diversity and are formulated into a score to compare between countries. Ultimately, this is decidedly secondary to the team's focus on assessing the financial risk and return characteristics of each bond and its fit with the portfolio manager's economic outlook.

Pleasingly, the firm has invested in its team to lift its expertise in ESG matters. Talieh Williams, a long-standing practitioner in this field, joined as an ESG specialist in 2021. Head of investment strategy and research Paul Chin and deputy CIO Kate Samranvedhya had been primarily responsible for developing the firm's ESG approach and policies, and while they remain important cogs on ESG issues, both have broader investment responsibilities to manage. Consequently, staffing appears suitable for the firm's ESG needs on the whole.

Janus Henderson | Eric Schultz | 10 May 2021
Janus Henderson earns a Morningstar ESG Commitment Level of Low.

Environmental, social, and governance issues are not a central part of Janus Henderson's investment culture. The firm earns a Morningstar ESG Commitment Level of Low.

Despite being an early signatory of the United Nations-supported Principles for Responsible Investment in 2006, the firm has just begun ramping up its ESG efforts in recent years. Its London-based governance and responsible investing team has now grown to seven members. All but two joined in the past couple years, with global head of ESG Paul LaCoursiere joining the firm in January 2021. The group subscribes to multiple ESG data sources and supplements those with in-house research, all of which is made available to investment managers through the firm's eQuantum platform. Investment teams can also draw on LaCoursiere's team for corporate engagements and ad-hoc projects, the bulk of which focus more on traditional governance concerns rather than environmental and social issues.

As a bottom-up, fundamental management firm, Janus Henderson doesn't mandate a firmwide view on ESG and its systematic incorporation into investment strategies. Instead, it takes a more decentralized approach. ESG integration is left to the discretion of individual investment teams to the extent they find it supportive of good, long-term outcomes for clients. Many portfolio managers do indeed factor ESG considerations into their investment decisions, but to varying degrees and not uniformly across the firm. Doing so is not required, and ESG integration is not tied to compensation for non-ESG-focused strategies. Furthermore, there are no firmwide exclusions.

Overall, Janus Henderson's philosophy toward ESG is consistent with how the firm operates as investors. ESG issues are considered, but to varying degrees across investment team.

Magellan Group | Chris Tate, CFA | 1 June 2022
Enhancements continue the evolution of increasing ESG integration.

Magellan Asset Management continues to enhance its analysis of environmental, social, and governance risks, but transparency into active ownership practices is still lacking. It earns a Morningstar ESG Commitment Level of Low.

Magellan incorporates material ESG (and other) risks to forecast cash flows and valuations, which ultimately drive an overall quality score. The team assesses and monitors ESG risk factors at the industry and company level in line with SASB's materiality framework. The overall philosophy to integrate material risk evaluations spans over a decade, but enhanced focus on ESG risk assessments began in late 2020. Magellan also launched the MFG ESG Core Fund and Magellan Sustainable Fund the same year. While enhancements have increased the focus on environmental and social factors, building on already robust governance considerations, greater evidence of portfolio impacts of this approach is required to be viewed alongside better-rated ESG peers.

Magellan's ESG resources rest predominantly with its 30-plus investment team, which assesses the ESG risks of a company. Head of ESG Domenico Giuliano and dedicated ESG strategist Elisa Di Marco are charged with formulation and execution of the firm's ESG philosophy. Each is the lead portfolio manager of one of Magellan's ESG offerings; Giuliano, the Sustainable Fund, and Di Marco, the ESG Core Fund. The two-person ESG team is small relative to the firm's AUD 70 billion in assets under management and a heavy workload compared with the typical demands of ESG. To supplement the assessment of ESG risks, analysts leverage data and information from a variety of external sources.

The ESG duo oversees Magellan's proxy voting and active ownership, including engagement, though engagements are typically enacted by portfolio managers and analysts. The firm engages with portfolio companies on a broad range of issues, including those related to ESG, but disclosure is lacking. The firm maintains proxy-voting records and engagement statistics internally but does not currently disclose any of this externally. Similarly, responsible investment policies related to environmental and social issues are vague. This lack of transparency makes it difficult for investors to discern the extent and impact of these activities and is a barrier to a more positive view of Magellan's ESG endeavors.

Man Group | Morningstar Manager Research | 2 August 2021
Work remains to integrate ESG more fully into the investment processes.

Man Group boasts a strong record on environmental, social, and governance-related proxy voting but remains at an early stage on other ESG aspects, such as oversight of ESG integration across investment teams. The group receives a Morningstar ESG Commitment Level of Low.

The group consists of five divisions, and as such it is a heterogeneous firm with no one-size-fits-all approach to ESG. A key focus has been the provision of data and tools to provide portfolio managers with relevant information. The firm has an in-house ESG data dashboard that scores companies using 15 key pillars across E, S, and G. It draws on data from external providers, adjusts for various factors, and formats this into usable distributions.

Rob Furdak, who became Man Group's CIO of ESG in January 2020, oversaw the development of the ESG tool and model in his previous role as co-CIO of Man Numeric, the group's quantitative investment division. Around 90% of Numeric's assets incorporate the ESG model, but investment teams across the other divisions of Man Group are free to incorporate ESG factors as they see fit. They have access to the dashboard, but there is little structured monitoring in place to push uptake of ESG incorporation, which remains at the teams' discretion. For portfolio managers, there are currently no formal goals, objectives, or KPIs linked to the integration of ESG factors.

Man Group's centralized stewardship and active ownership specialists are responsible for firm-level engagement and proxy-voting efforts, and the group has a very strong record on voting for key ESG resolutions. They have also joined forces with other asset managers and co-sponsored climate-change resolutions. Despite this, full voting records aren't publicly available. Quarterly voting summary reports are provided on the group's website.

Engagements at the fund/investment team level primarily stem from Man GLG, the fundamental active investment division in the group. Again, it is left up to the portfolio managers to track their own progress here, with little central oversight currently. Man Group is working on systems to bring more structure and to see how information can be better shared across teams, but it remains a work in progress for now.

Mellon | Sam Kulahan, CFA | 10 May 2021
Mellon earns a Morningstar ESG Commitment Level of Low.

Mellon has taken strides to incorporate environmental, social, and governance considerations since its formation in 2018, but many of these efforts are in their early stages or not yet fully formalized. It earns a Morningstar ESG Commitment Level of Low.

Mellon Investments was formed in 2018 as a combination of three BNY Mellon boutiques: Standish, The Boston Company, and Mellon Capital. Prior to the merger, each of the three now-combined boutiques signed the United Nations-supported Principles for Responsible Investment and took initial steps in their ESG journeys, though progress has sped up since.

Mellon has no dedicated ESG specialists, and each investment professional is responsible for weighing ESG considerations and materiality. In order to provide oversight, Mellon has set up an ESG council and designated four ESG champions across the firm. Investment personnel have access to several third-party ESG data sources, and in 2020, the firm launched a proprietary ESG score for equities.

Mellon's sustainability offering is very limited: It currently offers two ESG-focused strategies, a Municipal Bond Impact strategy and a Carbon Efficiency strategy. ESG integration into the investment processes of its fundamental active equity and fixed-income strategies is left at the teams' discretion. As such, integration isn't formalized, and the firm is still building out its monitoring process.

The firm is also in the process of updating its proxy-voting guidelines with respect to ESG considerations, though it has a reasonable record of backing ESG-friendly resolutions in 2020. Mellon engages with firms as needed on issues it deems material but does not have a formal engagement or escalation process.

In February 2021, Mellon announced that its active equity and fixed-income teams will join fellow BNY Mellon boutiques Newton and Insight, respectively, in the third quarter of 2021. That represents a large change to its makeup, leaving Mellon with its indexing business, though the impact on its future approach to ESG from these upcoming changes isn't clear yet.

Platinum | Ross MacMillan, CA | 1 June 2022
Well-established fund manager, but ESG is a work-in-progress.

Platinum Asset Management is slowly establishing its environmental, social, and governance and responsible investing efforts. However, the firm's slim ESG resources and limited disclosures place it behind international best practice, resulting in a Morningstar ESG Commitment Level of Low.

Despite a legacy of strong fund management practices, Platinum's ESG efforts remain a work-in-progress. Platinum only signed the United Nations-supported Principles for Responsible Investment in 2020, after many of its peers, and the firm employed its first ESG specialist in 2021. Platinum now formally excludes tobacco, military contracting, and controversial weapons companies from portfolios. The firm has room to grow in terms of developing and integrating ESG policies, methodologies, and procedures.

Platinum maintains that ESG factors can directly and indirectly impact a company's financial performance and prospects. However, ESG assessment is currently considered as just one component of the overall risk evaluation for investable companies. Platinum actively engages company management and directors on numerous topics, including ESG issues if deemed material to a company's long-term valuation. Nevertheless, Platinum usually steers away from active ownership. Typically, the firm will choose to either not take a position or exit an existing position in cases of material ESG risks, rather than attempting to effect change or collaborating with other asset managers to bring about change. Disclosure of portfolio-level ESG metrics relating to portfolios is limited, but the carbon intensity of each strategy's portfolio is published regularly. However, overall, reporting on various ESG and sustainability initiatives could be appreciably more detailed and encompassing.

Proxy voting is restricted to governance matters such as proposed share buybacks, mergers and acquisitions, and other business reorganizations. Transparency and disclosure of proxy-voting decisions are below the level of global peers.

Schwab Asset Management | Daniel Sotiroff | 1 November 2021
Just getting started.

Schwab Asset Management Solutions is in the early days of its efforts to integrate environmental, social, and governance considerations. The firm made some positive steps in the last year, but it is still forging a direction on ESG issues. It earns an ESG Commitment Level of Low.

Historically, SAMS has done little to incorporate ESG into its culture or investment strategies. It does not push an ESG agenda and relies on ESG-motivated clients to take the initiative. The firm provides third-party investment solutions and funds to those clients as a way to align their investments with their values.

A growing number of ESG-related requests has compelled SAMS to embark on a more intentional path, and it made some noteworthy progress in the last year. The firm promoted Malik Sievers to head of ESG strategy in late 2020—the first person to hold that position at SAMS. Schwab also filed for its first ESG-intentional fund in early 2021—an actively managed exchange-traded fund that will be subadvised by a team at Ariel Investments.

SAMS is leveraging its existing resources to drive the effort and is focusing on getting the most from what it has. Outside of Sievers' new role, others working on the ESG initiative are pulled from SAMS' existing staff.

Its attempt at active ownership has improved. Most proxy votes follow guidelines from Glass Lewis and Institutional Shareholder Services, but the stewardship team has recently taken on more responsibility to manually vote on certain issues. As of today, those areas are few in number and center around governance-related issues, including proxy contests, mergers and acquisitions, and proposals related to compensation. Most votes align with management.

SAMS rolled out a strategic engagement program in 2020. Compared with other asset managers, it does not conduct a large number of direct engagements with portfolio companies. In circumstances where it gets involved, SAMS forms its own opinion by reviewing the perspectives of activists and target companies before voting.

VanEck | Morningstar Manager Research | 10 May 2021
VanEck earns a Morningstar ESG Commitment Level of Low.

VanEck seeks to distinguish itself from larger asset managers by providing exposure to unique markets such as natural resources and emerging markets, but it has not distinguished itself within the sustainable investing space and is most deserving of a Morningstar ESG Commitment Level Rating of Low.

VanEck maintains an ESG Committee composed of senior leaders from across its major business lines. It has also developed a proprietary ESG tool which measures the environmental impact of the companies it invests in; however, nearly 90% of the assets VanEck manages are in index-tracking strategies which are agnostic to ESG criteria. Thus, the potential impact of the firm's ESG initiatives is limited.

Active ownership through engagement and proxy voting are VanEck's primary tools to affect ESG initiatives. On the proxy voting front, Van Eck follows Glass Lewis' guidelines, which have resulted in high support for ESG-related resolutions (87% in 2020). However, VanEck's engagements appear to be limited. The firm's engagement guidelines lack meaningful detail, such as what would trigger an engagement, how the engagement would be monitored, or how the effects of the engagement would be communicated to investors.

Vanguard | Alec Lucas, Ph.D. | 1 March 2022
Better but still room for improvement.

The Vanguard Group's ESG efforts continue to improve, but so have many competitors', and the firm itself still doesn't stand apart. It earns a Morningstar ESG Commitment Level of Low.

Passive ESG-focused strategies at Vanguard number around 20 across the United States, Europe, and Australia, but they amount to only a fraction of assets under management, and most use negative screens to exclude companies in controversial industries and those that run afoul of ethical and environmental standards. In practice, the screens of these strategies do not differentiate the funds from their broader universes as much as peers that explicitly integrate ESG criteria to select companies with positive ESG characteristics.

Vanguard's in-house fixed-income group has a six- to seven-person ESG committee that leverages third-party ratings to assign an ESG risk rating of Low, Medium, and High to each issuer. But the firm's virtual indexing approach even within most of its active bond strategies keeps any ESG tilts fairly modest.

Using external subadvisors for most of Vanguard's actively managed equity strategies results in a wide range of ESG approaches. Morningstar ESG Commitment Levels at the strategy level assess those approaches and firms for Vanguard's single-subadvisor funds, but three of Vanguard's largest subadvisory relationships are worth noting here. While Primecap's long-term focus on value-creating businesses aligns with many sustainable-investing frameworks, Primecap is reticent to incorporate standardized ESG metrics into its company evaluation process. Wellington, on the other hand, has sought to do just that to some degree for all its strategies and since mid-2019 has run the fully integrated Vanguard Global ESG Select Stock VESGX. Baillie Gifford, too, has a maturing sustainable-investing approach, and in 2022 Vanguard plans to adopt one of Baillie Gifford's previously existing strategies and rename it Vanguard Baillie Gifford Global Positive Impact Stock.

The Baillie Gifford strategy is an early sign of the influence of Vanguard's recently formed ESG global product team, headed by firm veteran Matthew Piro. Buttressed by the expertise of experienced hires, like Fong Yee Chan, this team has the potential not just to add other appealing ESG options to Vanguard's lineup but also to refine the ESG evaluation of current subadvisors. Even so, Vanguard is likely to remain tolerant of varying ESG commitments within its equity lineup. Moreover, disclosure of ESG metrics and risks for Vanguard products across the board are still lacking.

Active ownership is a bright spot at Vanguard through its investment stewardship team, whose membership grew from 35 in 2020 to around 60 by the end of 2021. In that year's first half alone, this group engaged more than 700 companies in 29 countries on ESG issues and voted on nearly 140,000 proposals while providing commentary on key votes. Yet, the team was undersized previously, many members are new to their roles, and support of key ESG resolutions has risen but continues to be lower than other big asset managers.

Voya | Morningstar Manager Research | 10 May 2021
Voya earns a Morningstar ESG Commitment Level of Low.

Voya is still in the early stages of developing its environmental, social, and governance effort and therefore earns a Morningstar ESG Commitment Level of Low.

Despite an early legacy foray into socially responsible investing through exclusionary strategies, Voya's effort toward a broader integration of ESG considerations across its product offering is fairly nascent. The firm has signed on to several ESG-related industry codes and associations over the years but became a United Nations-backed Principles for Responsible Investment signatory only at the end of 2017. Voya counts very few professionals dedicated to sustainable investing and relies predominantly on the recently established ESG steering committee to incorporate ESG considerations across asset classes. The committee, which is led by a seasoned head of ESG hired at the end of 2016, is mostly composed of investment professionals with limited experience in sustainable investing. Voya employs multiple sources of ESG data, and several areas of the company's investment platforms have developed in-house ESG tools and scoring processes, but the firm has yet to finalize its uniform proprietary rating system.

Ultimately, 16% of the firm's asset resides in strategies considered ESG-focused, but virtually all these assets are in purely exclusionary approaches, and the balance of the company's assets is managed free of any ESG considerations.

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